Annual Report

2016

NETAS

INDEX

INTRODUCTION BY CHAIRMAN

Dear Shareholders,

The strength of Netas' business model is a unique differentiator that continued to support the financial performance in 2016. In spite of a challenging macroeconomic backdrop, our diversified business model and leading operational capabilities allowed us to capture more value-added integration projects and services in 2016. ***We continued to undertake large-scale customized integration projects*** during the year in both domestic and international markets, while focusing on our continued projects and growing our service business in finance, telecommunications, energy, education, sports and health care sectors. Despite pressure from macro-economic and geo-political challenges, currency devaluations and other unexpected developments, we had a very successful result in 2016. ***Our consolidated sales revenue of TL 970 million was almost flat on a year-over-year basis,*** but we recorded ***a significant growth in EBITDA margin, which increased from 7% to 9%.***
Netas' performance in 2016 in Turkey shows the resilience of its diversified business model. To meet the demand for technology products and services, we continued to offer end-to-end value added solutions including technology consultancy and post-sales support to our customers across a range of sectors in 2016. We have delivered ***a sales revenue expansion of 2.5% in our largest market of Turkey*** in spite of the challenging conditions, and we believe that Netas is well-positioned for continued success in Turkey during 2017.
A major success for Netas during 2016 was the continued development of our services strategy. In accordance with Netas' strategic plan, the company has been building its services pipeline and optimizing its service delivery capabilities. As a result, services revenues increased by approximately 70% in TL terms during 2016, contributing to a significant overall increase in Netas' gross margin. With successful execution of our service strategy, ***we improved our gross margin*** level by 257 bps on a year-over-year basis to 13.9%. The bookings performance of our International segment was again strong in 2016, indicating continuing traction in Netas' regional expansion. Netas' International bookings increased by 220% compared with 2015 in TL terms.
Our adjusted net income figure (excluding the provision for Nortel receivables) came in at TL 40.4 million in 2016, compared to TL 34.3 million in 2015. IFRS net income of TL 18.7 million includes the effect of a TL 21.7 million provision* booked in YE2016 financials for the trade receivables from Nortel Networks, where recent legal developments have given greater clarity on likely recovery.
We are once more pleased with our ***strong balance sheet*** which is well positioned to support our business over the long term with 26% growth in shareholders' equity which is TL 550 million by the year-end 2016.
2016 also brought Netas to a significant shareholder transition. On December 6th, 2016 our major shareholder OEP Turkey Tech B.V. signed a share purchase agreement with ZTE Cooperatief U.A. for the sale of approximately 48.04% of the shares of our Company. This transaction will allow us to complement and strengthen our current offerings, deliver more value to customers, and expand our customer base. Following the transaction, we will continue to flourish and position Netas as a global technology player with ZTE. As our CEO, C. Mujdat Altay commented at the time of the transaction announcement, "Netas has been a major architect of Turkey's digital future and we will now work with ZTE to further address the global marketplace. We will engage in an exchange of know-how with ZTE, particularly in the areas of R&D and innovation." As I commented at the same time, "Netas has been a tremendous success story and flagship enterprise in Turkey, growing 400% since OEP invested 6 years ago. The exceptionally talented team at Netas has dramatically expanded their ICT capabilities, and has expanded internationally beyond Turkey. With ZTE's investment, global reach and product depth, Netas is extremely well positioned for future success."

**The amount consists of Nortel receivables provision amounting to 45 % of net-off Nortel companies' trade receivables and payables which is approved by the related authorities.*

Best Regards,

David Arthur Walsh
Chairman of the Board

Netas' International bookings increased by **220%** compared with 2015 in TL terms.

MESSAGE FROM THE CEO

Our experience, strength in R&D, innovative approach, wide services network, strong corporate structure and competent human resources bring us closer to our objectives every day.

Dear Shareholders,

As Netas, we continue developing innovative solutions for the last 50 years with the objective of creating a global technology brand in Turkey and becoming the leading systems integrator in the Region. Our experience, strength in R&D, innovative approach, wide services network, strong corporate structure and competent human resources bring us closer to our objectives every day.

R&D is a "national issue" for our country.

We work on the world's leading products and solutions. We believe that local R&D is one of the key for Turkey to create unique products via leveraging innovation and next generation technologies. We consider R&D as a "national issue". As the architect of the digital transformation in Turkey, we get our strength from R&D. We combine our global vision with local know-how. We design the most advanced global technology together with more than 700 R&D engineers in line with the 'glocal' culture we created based on our command in technology and innovation.
During the last three years, we have published more than 106 scientific articles, 68 of which are international articles, and applied for more than 200 patents on national and international platforms. We applied respectively for 35, 71 and 118 patents in last three years.
As Netas, we have proven ourselves by being elected as the Vice Chairman of the Board of Directors in the Telecommunication and ICT cluster Celtic-Plus, operating under the EUREKA. Thus, we now have a stronger place in the decision authority in Celtic-Plus, which operates in the area of end-to-end telecommunication solutions research and supports R&D projects.
As a result of our R&D practices, we developed the Disaster Management and Decision Support System (AYDES for AFAD) which plays a critical role for our country. We continue to develop its new phases. As we add new products to our portfolio including VIO (Video Communication Platform), NEOS (Netas Energy Automations Systems) and software test tools; our Defense R&D team continues their successful efforts in large projects such as the IFF, Shipboard projects and TASMUS.

We rapidly continue our efforts to develop 5G technology in Turkey.

TWhile diversifying our cooperation with the telecom operators, we also initiated business intelligence projects as a technology producer.
In 2008, when 3G licenses were granted in Turkey, we started to develop the Base Band Unit of the 4.5G product with our own resources in compliance with the LTE-Advanced Release 11. We have achieved significant accomplishments in 4.5G since the day we started this project. Today, we have the most comprehensive 4.5G laboratory and most experienced staff in Turkey. We are rapidly working to develop 5G technology in Turkey using our 4.5G know-how and infrastructure. Furthermore, as a member of the 5G Infrastructure Association, we have been elected to the board of directors of the European Technology Platform NetWorld2020, established to direct future mobile and fixed communication systems. We are proud to be leading the future communications and internet technologies, especially 5G, under the Turkish flag and together with leading global technology companies.

We are proud to develop the first cyber security product family of Turkey.

As one of Turkey's leading companies in terms of cyber security, we offer a wide range of solutions from products to consultancy while expanding our security team. Last year, we performed the first installations of NOVA, the first cyber security product family of Turkey. Our aim is to offer NOVA not only in Turkey, but in the Asian, Middle Eastern and African markets we operate and to become the company of choice in these regions.

We are growing through managed services.

With the Netas Cyber Operations Center, we offer IT security and management services to enterprises utilizing the most secure and updated methods. Offering cyber security operation services (SOC), network operation services (NOC) and managed services, we believe this center shall set an example in our country through its technical and physical infrastructure.

We offer verification tests for military and commercial hardware at Netas TestCenter.

Our test automation and verification teams at Netas TestCenter, perform the most suitable test processes to ensure high customer satisfaction, high-quality products and system sustainability. Our TestCenter unit successfully performs testing services for many industries through our R&D competence gained from many years of experience. Through resources that are found only in a very few companies, we offer verification tests for both military and commercial communication systems. As a result, we continue to offer high reliability and quality by implementing corrective actions on products, if necessary. We add value in all areas from production to consumption through services

including failure rate estimation, security assessments and tests, physical and electrical environmental tests, EMC tests, electrostatic discharge tests, high and low temperature tests, vibration tests and humidity and shock tests.

We export technology from Africa to Asia, from America to Europe.

In 2016, we have restructured our service group, which steers the digital transformation of Netas. With our business development team, we have studied the companies in the Silicon Valley that offer added-value services and established new contacts and partnerships. Within the scope of the businesses that we have been awarded in the international markets, we are carrying out the 3rd phase of the data center project of Sonatrach, the largest oil company in Algeria and Africa, the world's 11th largest oil company.
While expanding our vertical industry solutions through our strong R&D structure, we are exporting the new-generation broadband, VoIP and multimedia software solutions we developed to more than 200 global operators in North America, Europe and Asia.
Today, large companies carry "platform" features. Through 'Netas as a platform' structure, we have created a platform that offers technology development and market expansion opportunities to industry actors through information and experience sharing. This platform continues to be strengthened through our faith in R&D and innovation. On the other hand, Netas Wesley Clover Technology Fund that we have established in 2014 to support high added-value projects where we contribute to the entrepreneurship of young people in the field of technology in Turkey, continues to offer new technological development opportunities to young people.

We add value to the nature with an awareness of sustainability.

As Netas, we believe that sustainability means the continuity of diversity and productivity and maintaining longevity. Ensuring sustainability is possible through achieving a balance between the people and the nature. With this in mind, we have planted more than sixteen thousand trees in the Netas Healing Forest in the 10-hectare land located in Gazikoy at Tekirdag Sarkoy. With the Netas Healing Forest, we are pioneering a model that will protect the environmental ecosystem of Turkey. We set out with the aim of supporting the residents of forest villages, who are the natural guards of our forests, and ensure that they gain maximum benefit from the forest ecosystem. Today we are proud to say that we achieved this goal. We are also proud to be the only system integrator to be included in the Sustainability Index, created by Borsa Istanbul (BIST) for responsible investment, in 2016 as a result of our works on sustainability.

We are expanding in our offerings in business applications.

While generating solutions through our own applications in a customer-centered business focus, we contribute to middle and large scale companies in Turkey in approaching their customers, reducing their costs, increasing their profitability and rapidly gain returns on their investments.

We are pioneering the digital transformation of Turkey.

As Netas, we have assumed leadership in all areas from our corporate structure to our products and we continue our operations accordingly. We are pioneering the digital transformation in Turkey. As the number one system integrator of Turkey, operating at global standards and also dominant in the local market, we continue to realize large scale digital transformation projects. 44 stadiums in 26 cities were transformed into Smart Stadiums with our project that we develop together with TFF. We have developed a brand new system with the Ministry of Justice. Within this framework, we realized SEGBIS project which aims to record the cases with audio and video information system and to remove the obligation to go to court for trial of defendants in custody in prisons. We have provided innovative software and infrastructure solutions in order to improve and modernize the system infrastructure of Disaster and Emergency Management Presidency. Within the framework of TRNC e-Government program, we have realized the systems integration of e-Population Project. In order to contribute to the future of Turkey, we have undertaken all systems integration solutions of "Fatih Project in Education" with the Smart Class concept. Finally, we have started a major project in Aviation and Transportation industry. Within the scope of Istanbul 3rd Airport Project, we have started working together with IGA to install and operate the wired and wireless area networks that will cover the entire airport. The integrated solutions and services, the 24/7 support service we offer our customers, have a major role in the digital transformation of corporations

We continue to produce technology with determination and objective of becoming one of the 10 global brands coming out of Turkey by 2023. Our goal is to make Turkey reach an indispensable position in the field of IT. In the forthcoming period, we will continue to lead Netas to success in national and international markets, with our experience of 50 years, competences, know-how and indispensable core values.

Best Regards,
C. Mujdat Altay
Chief Executive Officer

While expanding our vertical industry solutions through our strong R&D structure, we are exporting the new-generation broadband, VoIP and multimedia software solutions we developed to more than **200 global operators in North America, Europe and Asia.**

VISION AND VALUES

OUR MAIN VALUES

• Our customers are our driving force.
• Our employees are our most valuable asset.
• We target quality in all areas.
• Innovation is our assurance for the future.
• Responsibility prevents uncertainty in workflow.
• Integrity is the basis of all our projects.

OUR VISION

Becoming Turkey's and Region's #1 systems integrator working as per global standards.

OUR QUALITY POLICY

Continuous improvement to ensure the sustainability of our quality management system established in accordance with international standards aiming for "Excellence" and based on data for the purpose of creating added value for our customers in line with our vision. All Netaş/Probil employees are responsible for ensuring "Excellence" through continuous improvement.

CORPORATE PROFILE

Turkey's Leading ICT Brand

We offer end-to-end added-value solutions, system integration and technology services to service providers and enterprises in local and global markets, in accordance with our vision "to be the number one system integrator of the region, operating at global standards and knowledgeable on the local market", with our innovative approach to ICT and the extensive experience we gained in Turkey. We have been operating for 50 years and continue our activities with our customer-focused, innovative approach and contributions of our next-generation R&D unit.

We have focused on industries such as defense, finance, telecom service providers, energy, education, sports and healthcare, offering solutions in a wide array of areas such as communications network, security, integrated communication, virtualization, cloud computing, defense technologies, public security, broadband mobile access, optical and carrier ethernet, GSM-R, managed services and software development. Moreover, through our certified and experienced service team at BDH (IT Support Services), a 100% Netas subsidary specialized in various fields of IT. We offer consultancy, managed services, hardware and support services to all companies in Turkey, from small-scale companies to large enterprises and public institutions.

We Are Leading the Digital Transformation of Turkey

In 2016 our main focus areas were digitalization, cyber security solutions, big data, business intelligence applications and broadband technologies along with secure cloud computing solutions addressing various needs of our customers.

We lead Turkey's digital transformation via smart technologies that will advance Turkey. We participate in many projects, especially smart cities, buildings and stadiums and also e-IDs, e-government applications and disaster management. We develop pioneering solutions with global competitiveness using the know-how and skills of Turkish engineers in our R&D center. We plan to realize projects to ensure our future and successfully continue our activities to become a regional system integrator. We contribute to the national economy and globalization of companies through our patent applications for planned and ongoing projects and products in technologies such as fixed and mobile communications, cyber security, defense, multimedia, cloud computing, data centers, managed services and the IoT. We lead the modernization of our corporate and public sector customers through the software we develop in a wide range of sectors from finance to mobile communications.

We have undertaken an important role in the hardware and software development from scratch for the first domestic 4.5G base station project of Turkey

As a part of our contemporary projects we developed the 4.5G – LTE from scratch, also known as the "Mobile and Fixed Wireless Broadband Access Technology", a technology owned by a limited number of international technology companies, together with Aselsan and Argela under the ULAK project. This technology is designed both for mobile operators planning to transition to 4.5G and to meet the needs of many companies across a wide range of industries ranging from transportation to border security, which require high-speed, uninterrupted and secure video communication.

Fields of Activity

Digital Transformation Consultancy

Netas is the leader in digital transformation in Turkey thanks to its customer-focused innovative approach. As the number one system integrator in Turkey, working as per global standards and armed with the knowledge of the local market, we realize large-scale transformation projects. We predict that the desired digital transformation can be achieved through optimum use of ICT and thus we offer our technological know-how in this perspective. We provide assistance in accelerating network speed, decreasing cost and complexity, increasing security and utilizing all the benefits of mobility; while also ensuring the security of all IP-based communication technologies, especially 4.5G, and developing products and services to provide assurance to enterprises thanks to our complete Enterprise Network Solutions. We implemented the next generation data center project of Sonatrach, the largest oil company of Algeria and Africa and the 11th largest oil company of the world. In addition to moving our customers' systems to the cloud, we offer assistance in the administration of these systems and related support services. Microsoft plays a significant part in Netas' business solutions. We supplemented our many years of experience in Microsoft solutions with the Microsoft Service Center. We continue our joint operations with Microsoft in fulfilling licensing, infrastructure, application, and communication, cloud and service requirements of companies. We have added Salesforce, the company with the highest recognition in the CRM market, to our services in business application solutions. We offer a wide range of services to the customer success platform of Salesforce, from license sales to consultancy, integration, solution implementation and post-sale 7/24 support services.

Innovation and Products

At our R&D center, we perform design and development activities on next generation systems, including audio and video communication, call control applications, and WebRTC technology. VIO Video Communication Media, which enables employees, customers and partners to communicate through voice, video and file sharing, offers a secure web-based communication platform. We also offer a wide range of 4.5G products that provide end-to-end voice and data transmission services with flexible, scalable and virtualized mobile core network (EPC), next generation IMS, AAA products as well as VoIP and Integrated Communication Solutions (TAS/RCS/WebRTC Gateway), also developed in our R&D center. We also present up-to-date, reliable and effective solutions and consultancy services in cyber security. Our solutions and products are developed in our R&D center which uses the CMMI model. Our R&D projects include development of technologies such as VoIP, security for the web and the Internet of Things (IoT), big data network and implementation level security analytics, analysis of malware on mobile devices, and reputation-based operation centers. In 2016 we started installing NOVA solutions, our homegrown and the first cyber security product family of Turkey. We design high-technology products for the Defense Industry. As the number one

We have focused on industries such as defense, finance, telecom service providers, energy, education, sports and healthcare, offering solutions in a wide array of areas such as **communications network, security, integrated communication, virtualization, cloud computing, defense technologies, public security, broadband mobile access, optical and carrier ethernet, GSM-R, managed services and software development.**

system integrator preferred by the Turkish government and in the public security ecosystem, we provide our services for wide-ranging public IT projects. We also have a strong presence outside Turkey, including the agreements signed with the Algerian Ministry of Defense.

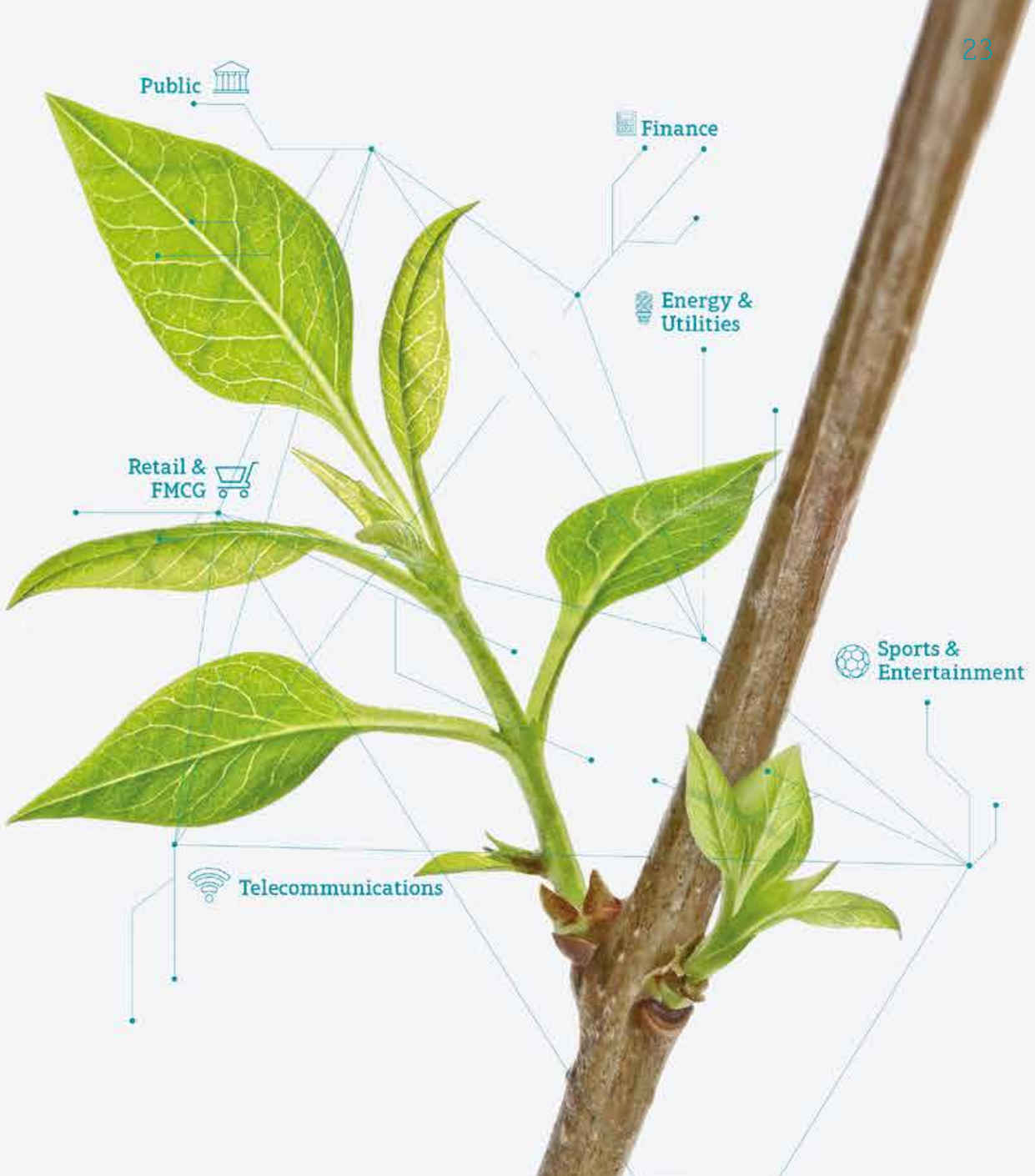
Industries

We implement our value-added solutions in fields such as broadband mobile access, communications network, cyber security, integrated communications, virtualization, cloud computing, public security, managed services and software applications in various vertical industries. We offer services to banks, bank branches and financial institutions. We offer solutions and services specific to companies in the finance industry, in application development, supporting the development and testing needs of software teams, business intelligence solutions, making infrastructures suitable for digitalization and most flexible realization of customer and in-house communications. In addition to industry-specific applications such as automatic meter reading systems and remote management of street lamps, we design and produce specific solutions for the largest energy companies of Turkey, providing them with data centers, as well as software and infrastructure solutions. In the sports and entertainment industry, we completed the installation of the electronic ticket infrastructure under the first Smart Stadium project of the Turkish Football Federation. In addition to infrastructure solutions in smart stadium projects, we also implement projects using end-to-end solutions with services such as data center management. We provide solutions and services to all vertical industries including leading conglomerates, large telecom service providers and alternative operators of Turkey. While strengthening our portfolio in infrastructure solutions with next generation technologies, we offer our homegrown LTE solutions and continue to provide solutions as partners of telecom operators with OSS and BSS solutions in the field of applications. Thanks to our home-grown next generation communication technologies developed for defense communication, public security and e-government solutions, we have also positioned ourselves in the same class as multinational companies and we continue to work towards the technological transformation of the public sector in Turkey and in the region, ensuring better service in the public sector through our competence in technology transfer.

Services

We offer "Managed Services" to corporations, based on models compliant with their specific infrastructures. We have accumulated substantial experience in ITIL (Information Technology Infrastructure Library) to allow our customers focusing on their own core business and reducing capex and opex. We successfully provide high-quality and efficient test services to our customers with our Test Center solutions. Initiated to ensure that enterprises gain maximum efficiency from their technology and security investments with their existing staff, Netas Cyber Operations Center helps us operate all network and security operations according to global standards, where global technology partners and leading technology companies operate in an integrated manner. In this center Netas ensures that the security analyses and correlation of its customers are realized through a single center by experienced and skilled staff and 7/24, through the command and control center where the IT infrastructures of corporations requiring active security status tracking, are monitored continuously and intervention is made against attacks/threats. In this operations center, processes such as business continuity and cyber-thread intelligence analysis are implemented through continuous monitoring and analysis of cyber events and alarm generating. Besides New Generation Firewall, Threat Detection/Prevention System (IDS/IPS), Remote Secure Access (SSL VPN), Content Filtering, e-Mail/Internet Anti-virus Gateways (AVGW), standard network security solutions also offer new technology components such as DDOS Prevention, Central Trace Collection, Event Association and Alarm Generation Systems.

Fields of Activity



MILESTONES

AWARDS IN 2016

NETAS has been awarded as the "Commercialization of Innovation Award" in the "Large Companies" category with "NOVA MSP" (Media Security Platform) at the 14th TESID Creativity and Innovation Awards organized by the Turkish Association of Electronics (TESID).

NETAS has been listed as "3rd Best Breakthrough" at the 5th Turkish Patent Awards organized by the Ministry of Science, Industry and Technology and the Turkish Patent Institute.

At the 17th "Information Technology 500 - Top 500 Information Technology Companies" survey conducted by BThaber Publishing, NETAS ranked number one in the categories "System Integrator of the Year", "System Integrator of the Year / Hardware", "System Integrator of the Year / Software", "Network Hardware of the Year", "Software Export of the Year" and "Installation Maintenance Support Services".

NETAS received the "Cooperation and Interaction" award at the 5th Private Sector R&D Centers Summit organized by the Ministry of Science, Industry and Technology.

NETAS ranked first in the category "Information Technology Services" in the survey " Turkey's 500 Large Service Exporters " organized for the first time by the Turkish Exporters Assembly (TIM) and the Ministry of Economy.

NETAS ranked number one in the Information Technologies category at the TET Export Awards, thanks to its software exports to the largest global operators, railway companies and its technology exports to Algeria.

MILESTONES

1967 Establishment of Netas under the partnership agreement between PTT and Northern Electric. 51 percent of shares owned by Northern Electric and 49 percent by PTT.

Capacity at the time of establishment was 40,000 lines.

1969 Commissioning of the factory.

1970 First exports to Lebanon.

500 automatic telephone units were exported.

1971 Number of employees reaches 1,000.

1973 Establishment of Turkey's first private sector R&D in telecom business. Manufacturing of exchanges and telephone units by Netas helps save more than TL 100 million equivalent of foreign currency.

1975 Annual production capacity: 190,000 telephones, 160,000 lines

1976 First automatic long distance call between subscribers.

1977 Commissioning of the 500,000th line in Ankara.

1978 First exports to Ireland and Canada.

1979 First automatic international call.

Production of the 1 millionth telephone unit.

1981 Commissioning of the 1 millionth telephone line.

1982 Development of the first electronic exchange of Turkey: "SpaceNet."

Designing of Turkey's first rural exchange.

1983 Transition of Netas to digital technologies.

Establishment of Printed Circuit Board plant.

1984 DMS 10, the first digital exchange of Turkey is manufactured. Introduction of Efes touch-tone telephone. DMS 200, the first long distance digital exchange of Turkey commissioned in Tahtakale, followed by Ankara.

1985 Number of active lines exceeds 2 million.

1986 Establishment of Netas Training Center featuring computer aided training facilities and modern test devices.

1987 Turkey steps into a fully digital communications era.

Number of lines delivered to PTT exceeds 3.5 millions

1989 Digital design ownership of digital DMS 100i product.

Dicle (DRX-4), the first digital rural exchange is designed, developed and commissioned in Yalova and Istanbul.

1990 Production of the 1.5 million DMS line.

Expansion of exports territory: Soviet Union, Azerbaijan, Nigeria, Turkish Republic of Northern Cyprus and Canada.

1991 Netas establishes the data network to be used within the scope of interbank Electronic Fund Transfer (EFT) project.

The biggest R&D department in the private sector - 200 employees.

1992 NATO AQAP-110 quality certification.

Start of multiplexer production for transmission network.

1994 Design of the first ASIC

1995 Start of production for the first project for the Turkish Air Force: Identification Friend-or-Foe System

Commissioning of the 1 millionth PABX line.

1996 European Quality Achievement Award.

Start of production of TASMUS (Tactical Area Communications System) for Turkish Land Forces.

1997 Netas became the first Turkish company to receive ISO 14001 environmental certificate in information technologies field.

1998 European Quality Achievement Award

Software exports total USD 10 million.

2000 Netas signs contract for the sale and delivery of SDH transmission products.

Growth in Russia, Morocco, Bangladesh and Kazakhstan by 40% more than the previous year.

2001 Acting as the largest supplier of telecommunications equipment infrastructure in Turkey, Netas manufactured carrier class optic and data network equipment worth USD 70 million.

2002 Commissioning of the state-of-the-art optic system for Türk Telekom. The system's SDH optic network is capable of data transmission at 10GB/s.

Signing of Aycell GSM 1800 mobile telecommunication network contract worth USD 145 million.

400 base stations installed in 35 cities.

Establishment of fiber optic transmission network for local and central data/voice traffic of TEIAS.

R&D program of Nortel Networks focusing on international switching is fully entrusted to Netas.

2003 Signing of a USD 40 million contract for the modernization of Turk Telekom's fixed line network.

2003 Signing of a USD 40 million contract for the modernization of Turk Telekom's fixed line network.

2004 Start of modernization and expansion projects for TURPAK and TSDNet data networks.

TN-1XE, a domestic product, introduced in transmission infrastructure of Türk Telekom.

2005 New generation exchange -soft switch installed as an international exchange in Türk Telekom network.

2006 More projects in defense communications: New patrol boat, MILGEM, search and rescue boat projects.

Two separate transmission projects completed and commissioned in Bangladesh.

2007 Nortel Global High Technology Development and Solution Center established: 800 R&D engineers working for the development of new generation communication networks.

"Software Export Champions" of Turkey

2008 "R&D Center" status granted within the scope of the law.

"Software Export Champions" of Turkey.

2010 Software Export Champions" of Turkey.

OEP RHEA Türkiye Teknoloji BV acquires 53.13% of Nortel shares.

Partnership and R&D cooperation contracts signed with global technology giants such as Genband, Avaya, Ciena, Kapsch and CarrierCom.

2011 Acquisition of Probil.

Named as the first Cisco Cloud Infrastructure Provider of Turkey.

"Microsoft Enterprise Sales Partner of the Year" award.

Continuing growth of Strategic Partnership Network with the participation of global technology companies such as Microsoft, Cisco, HP, Motorola, Oracle, Fujitsu, Hitachi and Mitel.

Development of Turkey's first "4G -LTE/ Mobile and Fixed Wireless Broadband Access Technology".

Design and development of "Through the Wall Imaging System" based on ultra broadband radar technology.

Ecensus system commissioned in Turkish Republic of Northern Cyprus.

The Biggest Voice and Video Network Project of Turkey: Contract with the Ministry of Justice for Voice and Video IT System interconnecting courts and prisons.

110 Smart Classrooms project with the Ministry of Education, implementation of smart classroom concept in 110 classrooms nationwide, enabling centralized training facility for teachers. Netas named as "Genband R&D Center of Excellence Selected as the "Most successful R&D Center in telecommunications business" by the Ministry of Science, Industry and Technology.

Netas Kazakhstan office established.

2013 Growing stronger with the acquisition of 10% Group A shares of Kron. Celebrating the 40 Anniversary in R&D, Netas moved to the new technology base in Kurtköy.

Awarded as the "Best Global Partner in Enterprise Business" by Cisco.

Awarded the contract for the Fourth Generation (4G) Communications Technology Development.

Project (ULAK) for Military, Public Security and Civilian Applications under the leadership of the Undersecretary for Defense Industries.

Netas increased Aydem's productivity through the Automatic Meter Reading System Project.

Establishment of technology infrastructure for Odeabank.

Finance Sector's Biggest Project for Cloud Transition -Netas moved all branches of Akbank to cloud.

Implementation of Network, IP Telephone and Call Center Project covering all branches and ATMs of Ziraat Bank.

First smart stadium project of Turkey -Establishment of e-ticket infrastructure for 31 stadiums within the scope of Smart Stadium project awarded by Turkish Football Federation.

Selected as the "Most successful R&D Center in the telecommunications business" in 2013 by the Ministry of Science, Industry and Technology.

The Turkish Patent Institute published the list of "Companies with the Highest Number of National

Patent Applications in 2013" and Netas was ranked 2nd in the telecommunications industry and 7th in Turkey with 34 patent applications.
Became the highest growing company in the Turkish information technologies industry.

Given "The Turkish Systems Integrator Partner of the Year" award by Microsoft.

2014

A first in the history of technology exports of Turkey. Digital Field Exchange, which was developed and manufactured by Netas for 10 years and exported to Canada.

Signed a fi veyear contract for the improvement of 2G and 3G transmission infrastructure of and delivery of radio frequency (RF) optimization solutions for ATM Mobilis, an Algerian mobile operator.

Signed a contract with Bangladesh's national service provider BTCL (Bangladesh Telecommunications Company Ltd.) for capacity upgrade of national transmission backbone and renewal of devices and software.

Signed a contract with Ucell, mobile operator of Uzbekistan, for the nationwide completion of IP-based infrastructure. Established network infrastructure for the new Primary Data Center (BVM) of the Istanbul Stock Exchange.

Signed a contract for the delivery of radio and wire communications in the Haydarpasa-Gebze-Köseköy section of Marmaray and Ankara-Istanbul High-Speed Rail Line.

Applied for 35 patents.

2015

With the assistance and guidance of the Undersecretariat for Defense Industries (SSM), the Fourth Generation (4G) Communications Technology Development Project's product (ULAK), locally developed by Turkish engineers.

Under the FATIH Project, "2nd Phase Local Area Network Installation Work" including infrastructure installation for schools awarded to Netas by the Turkish Ministry of Education.

The third place award in the Service industry Category at the 9th "Export All Stars 2014" organized by the Istanbul Mineral and Metals Exporters' Association.

The top prize by BT Haber Yayıncılık in the 16th "ICT 500-Top 500 ICT Company" survey. Netas was awarded in the following categories: "Network Hardware of the Year," "Software Export of the Year," and "Systems Integrator and Hardware of the Year."

In collaboration with Wesley Clover, owned by the Canadian investor, Sir Terrence H. Matthews, there are 7 companies within the Netas Wesley Clover Technology Fund (NWCTF) where the investment in start-up companies and entrepreneurs takes place, as well as promoting high value-added technology projects.

Two top prizes at the 4th Private Sector R&D Centers Summit organized by the Ministry of Science, Industry and Technology. The top prize in the "R&D Employment" field in addition to the "Most Successful R&D Center in the Telecommunications Industry in 2014."

Launching the "Netas Healing Forest" project in collaboration with the Ministry of Forests and Water Affairs, General Directorate of Forestry and the Provincial Directorate of Forestry of Istanbul. This project aimed to protect and enhance medicinal aromatic plants, and build an additional source of income for the villagers besides wood-chopping. The project has been implemented on a 10 hectare field in Gaziköy, a village in Şarköy/Tekirdağ.

"Highest Volume of Investment in the Expertise of the Year" and the "Fastest-growing Business Partner in Server Business of the Year" awards by HP.

Launched Turkey's first locally developed cyber security solutions under NOVA brand; NOVA Cyber Security Solutions to ensure safety in online audio and video talks for VoIP and multimedia technologies.

71 patent applications in 2015.

2016

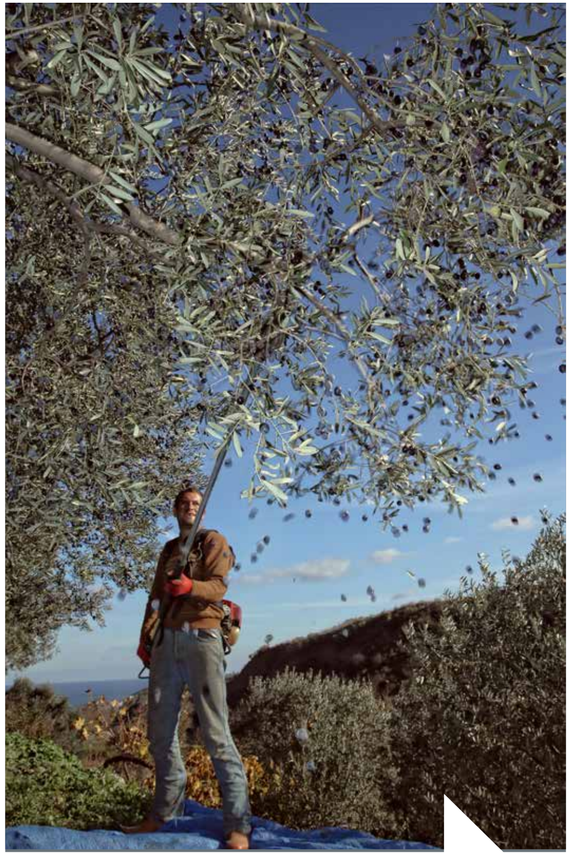
The "5G Technologies Consortium Cooperation Agreement" was signed with Aselsan and Havelsan, under the leadership of the Turkish Armed Forces Foundation (TSKGV).

44.2 million-dollar digital transformation project agreement has been signed between NETAS and Sonatrach, the largest oil company of Algeria and Africa, and the 11th largest oil company of the world.

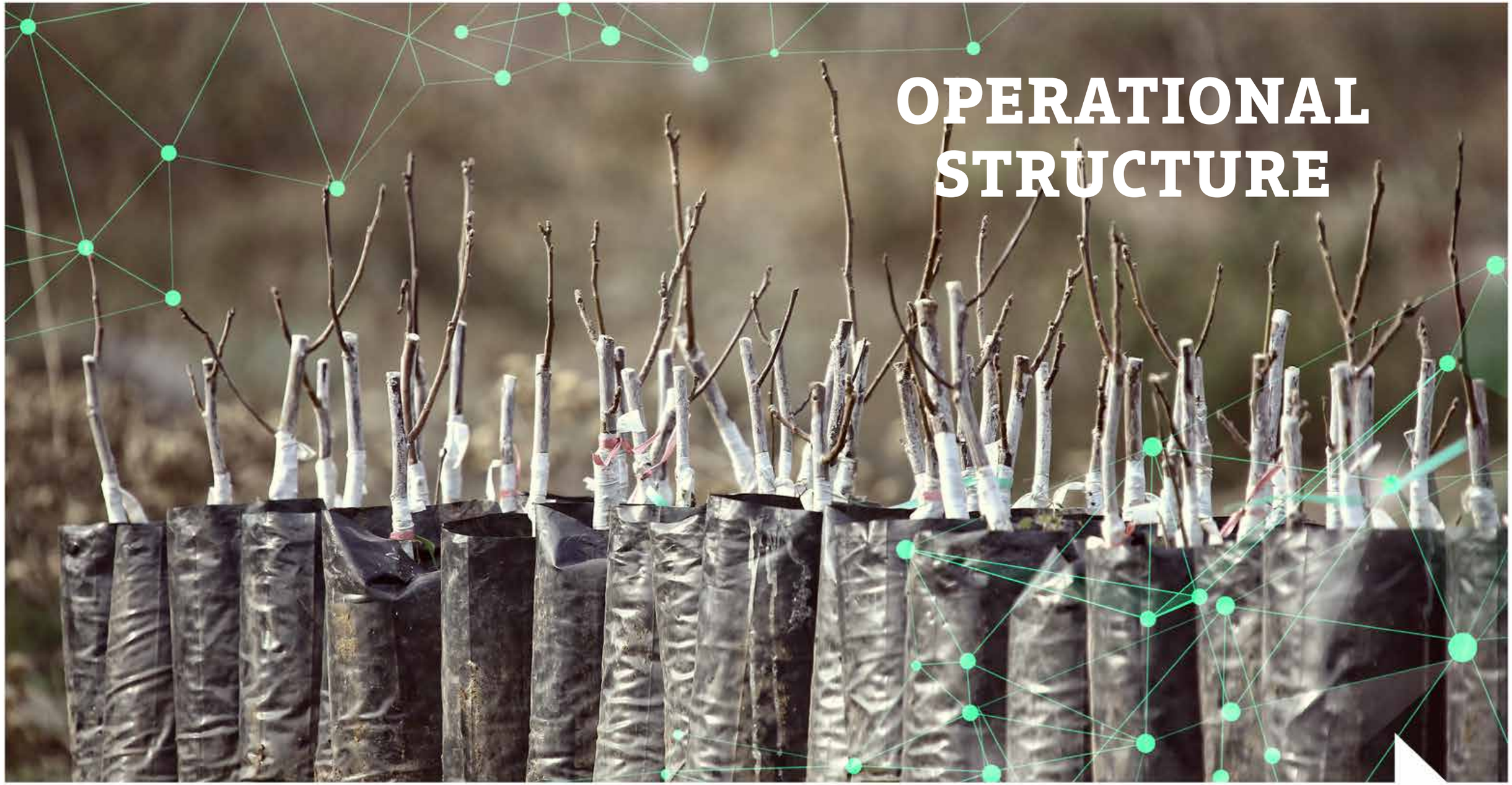
NETAS sponsored IT infrastructure services for the Turkish Football Federation Press Tent in Marseille, France during the Euro 2016 European Football Championship.

The number NETAS employees since its foundation exceeded 10,000 people.

NETAS was elected to the board of directors of NetWorld2020 which aims to contribute to and steer the research of future mobile and fixed communication systems to be used in 2020 and beyond.



OPERATIONAL STRUCTURE



Probil

The ever increasing global competition and shifting the focus from product to customer focus solutions mandate companies to always keep up with the IT technologies and use the technology more effectively. Probil has been providing a wide range of services from industrial solutions to business solutions, systems integration, outsourcing, care and maintenance services, network solutions and consultancy since 1989.

BDH

BDH offers brand - independent consultancy, strategic outsourcing, hardware and support services in IT field to a wide range of customers from small scaled companies to enterprises and public institutions. With a service team of experienced and certified specialists in different IT fields, the company has a single point of access to its customers in Turkey.

BDH operates with 36 branches and 46 partners in different cities of Turkey. Centers located in Istanbul, Ankara, Izmir, Bursa and Samsun offer hardware support for all kinds of IT products from servers and storage units to hand - held devices and printers.

NETAS Telecom LLP

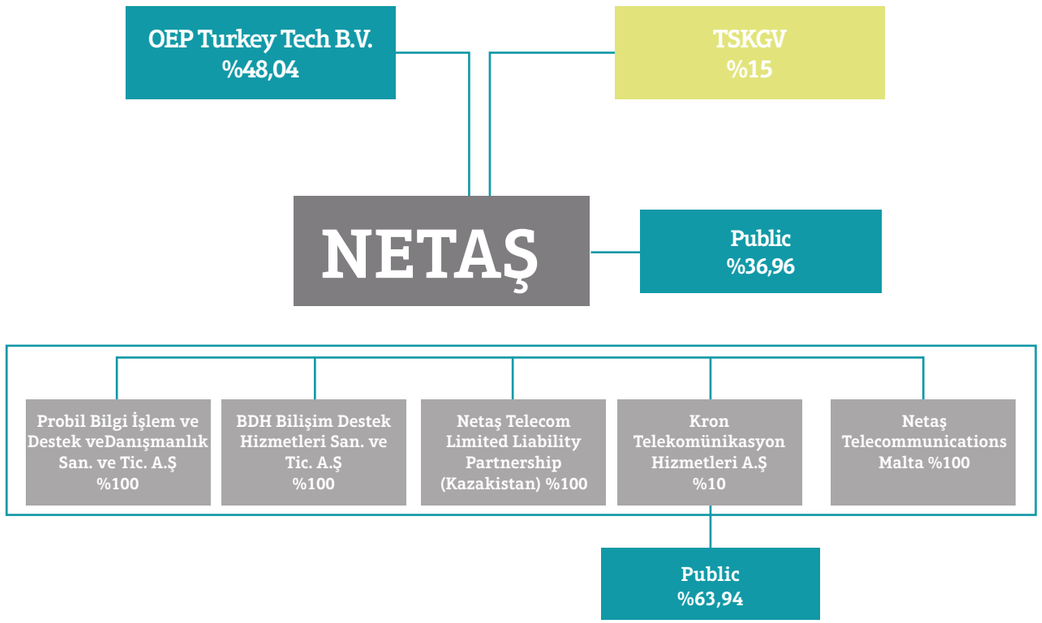
"Netas Telecom LLP" is founded in Almaty, Kazakhstan in 2012. The company is fully owned by Netas. The Company operates in line with Netas' vision "To Become the Regional Systems Integrator".

Netas Telecommunication Malta

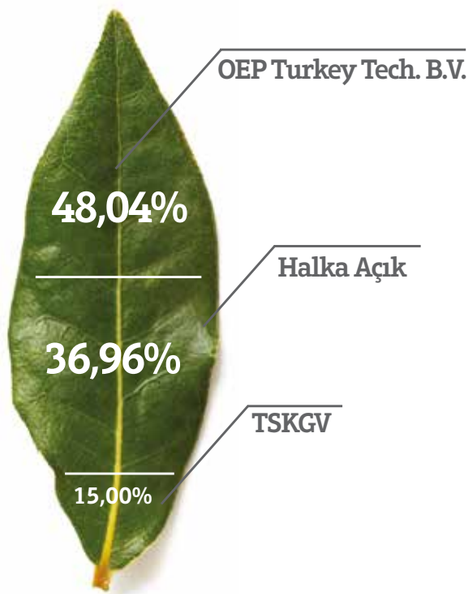
A fully - owned subsidiary is established in Malta with an initial capital of € 1,200 for the purpose of improving the operational effectiveness, and registered with the name of Netas Telecommunications Malta Ltd in 4 November 2014.

Kron

Kron Telekomünikasyon Hizmetleri A.Ş. is a company that produces software solutions for national and regional telecom operators and service providers. Netas acquired Group A shares of the company in 2013 in line with the strategic growth goal and the purpose of offering innovative solutions to its customers.
Having strengthened its capabilities in the field of systems integration with the acquisition of Kron, a company that develops customized solutions and products, Netas now provides a wider range of end-to-end solutions to its customers in Turkey and in the region.



CAPITAL AND SHAREHOLDING STRUCTURE



As of December 31, 2016, OEP Turkey Tech B.V. represents 48.04% of the total shares in the company as the owner of 23,351,328 A shares and 7,811,242 B shares.

The company shares are divided into two groups and all are registered shares. Separation of the shares into two groups grants no privileges to the mentioned (A) and (B) group shares other than as specified in article 9 and 15 of the Articles of Association.

According to article 9 of the Articles of Association; the meeting and decision quorums for Ordinary and Extraordinary General Assembly meetings are as specified in the relevant provisions of the Turkish Commercial Code and the Capital Markets legislation. However, in decisions regarding amendment of the Articles of Association, approval is required by shareholders representing at least half (1/2) of the total (A) shares.

According to article 15 of the Articles of Association; the Board of Directors consisting of 7 (seven) persons shall be elected for an office terms of 3 (three) years by the General Assembly such that 4 (four) members shall be elected from candidates nominated by (A) group shareholders, consisting of 2 (two) members to be elected among candidates nominated by OEP Turkey Tech B.V. and 1 (one) among candidates nominated by the Turkish Armed Forces Foundation; and such that 3 (three) members shall be elected among candidates nominated by (B) group shareholders.

31/12/2016	Share in Capital (TRY)	Share in Capital (%)
OEP Turkey Tech. B.V.*	31,162,569.63	48.04%
Turkish Armed Forces Foundation (TAFF)	9,729,720.00	15.00%
Public	23,972,510.37	36.96%
Total Issued Capital	64,864,800.00	
BIST Code	NETAS.IS	

Traded in Borsa Istanbul ("BIST") since 1993, NETAS attracts many domestic, foreign, corporate and individual investors.

A share purchase agreement (the "Agreement") has been signed between OEP and ZTE Cooperatief U.A. on December 6, 2016, for the transfer of all shares representing 48.04% of the total shares of our Company.

01.01.2016 - 31.12.2016	Lowest	Highest	Average	31/12/2016
Share Price (TRY)	7.40	11.84	9.91	9.99
Market Value (mil. TRY)	480.0	768.0	642.6	648.0
BIST-100	68,567.84	86,343.36	77,209.44	78,13z8.56

Registration date: 3/3/1967 Public offering date: 15/03/1993 Free float rate: 36.96% Earnings per share Gain per share was TRY 0.2878 in the period between January 1 - December 31, 2016. The Company shares traded in Borsa Istanbul had a closing price of TRY 9.99 as of December 31, 2016 and a market value of TRY 648.0 million.

MANAGEMENT

Executive Committee

Front row from left to right

Gönül Kamalı: Information & Communication Technologies Vice President, **Bilgehan Çataloğlu:** : BDH General Manager, **C. Müjdat Altay:** Chief Executive Officer, **Yasemin Akad:** Chief People Officer **Selcan T. Taşkıran:** PChief Marketing Officer, **Ömer Aydın:** Defense Product Solutions Senior Director, **Ali İhsan Kuralkan:** International Markets Business Unit General Manager

Back row from left to right

Öner Tekin: Public, Defense & Telecom Sector Solution & Project Vice President, **M. İlker Çalışkan:** Chief Financial Officer, **Kamil Orman:** Public & Defense Sector, **M. Ali Tombalak:** Enterprise Business Unit General Manager

Board of Directors

Name Surname	Title
David Arthur Walsh	Chairman
Turkish Armed Forces Foundation (TAFF) (Rep:M. Cumhur Özdemir)	Vice Chairman
Joseph Patrick Huffsmith	Board Member
Memet Yazıcı	Board Member
Andrew Glover Dunn	Board Member
Alpaslan Korkmaz	Independent Board Member
Emre Şehsuvaroğlu	Independent Board Member

The Board of Directors has established three committees: Corporate Governance Committee, Auditing Committee and Committee for the Early Identification of Risks. Corporate Governance Committee consists of a chairman and four members, Auditing Committee consists of two Independent Board Members, and Committee for the Early Identification of Risks consists of one independent member and two members.

Corporate Governance Committee
Chairman: Alpaslan Korkmaz - Independent Board Member
Member: David A. Walsh- Board Member
Member: TAFF (Rep:M. Cumhur Özdemir)- Board Member
Member: Memet Yazıcı – Board Member
Member: Çağrı Demirel (*) – Investor Relations Manager

(*) Investor Relations Manager Tuba Bektaş has been replaced by Çağrı Demirel as of October 2016.

Auditing Committee

Chairman: Emre Şehsuvaroğlu - Independent Board Member
Member: Alparslan Korkmaz - Independent Board Member

Committee For Early Detection of Risks
Committee meetings are typically held one day before the Board meetings.

Since Nomination Committee and Compensation Committee required by Corporate Governance Principles are not established due to the structure of the Board of Directors, their duties are fulfilled by Corporate Governance Committee.

CVs of the Board Members are available at our Company website.

Executive Committee

C. Müjdat Altay: Chief Executive Officer

M. İlker Çalışkan: Chief Financial Officer

Yasemin Akad: Chief People Officer

Selcan T. Taşkıran: Chief Marketing Officer

Gönül Kamalı: Information & Communication Technologies Vice President

Kamil Orman: Public & Defense Sector Business Unit General Manager

Ali İhsan Kuralkan: International Markets Business Unit General Manager

M. Ali Tombalak: Enterprise Business Unit General Manager

Bilgehan Çataloğlu: BDH General Manager

Ömer Aydın: Defense Product Solutions Senior Director

Öner Tekin: Public, Defense & Telecom Sector Solution & Project Vice President

Financial Benefits Allocated to the Board of Directors and Senior Management

Financial benefits paid and allocated to the Members of the Board of Directors as of the fiscal year that ended by 31 December 2016 was TRY 0.5 million. Financial benefits paid and allocated to the Members of the Board of Directors and Board of Auditors as of the fiscal year that ended by 31 December 2015 was TRY 0.5 million.

There are no Group credits utilized by the Members of the Board of Directors as of 31 December 2016 and 2015.

Financial benefits paid and allocated to the senior managers as of the fiscal year that ended by 31 December 2016 was TRY 6.6 million. Financial benefits paid and allocated to the senior managers as of the fiscal year that ended by 31 December 2015 was TRY 5.7 million.

There were no Group credits utilized by the senior managers of the Group as of 31 December 2016 and 2015. Group pays bonuses and premiums to the senior managers in addition to their remuneration.

R&D

Netaş Wesley Clover Technology Fund

Aiming to invest in start-up companies and entrepreneurs and to support high added-value technology projects.

"Netas as a platform"

Netas' CEO C. Mujdat Altay: "For 50 years we have been contributing to the technological transformation and skilled workforce development of our country. Being a major "architect" of Turkey's digital future, we know that developing world leading products and solutions depends on the R&D and inNOVAtion ecosystem. Today, large companies carry 'platform' features. Therefore, through 'Netas as a platform', we created a platform offering opportunities to the industry players for technological development and expansion into the market. The platform is based on our faith in R&D and inNOVAtion. One of the best examples of the platform is the Netas Wesley Clover Technology fund established two years ago, consisting of six active companies."

Netas Wesley Clover Technology Fund (NWCTF)

The ***Netas Wesley Clover Technology Fund*** was established in 2014 as part of our cooperation with Wesley Clover, the company of Canadian investor Sir Terrence H. Matthews, aiming to invest in start-up companies and entrepreneurs and to support high added-value technology projects. Thus, ***Netas*** has brought to Turkey the unique investment model of Sir Terry Matthews, who founded his first company Mitel with only USD 4,000 of borrowed capital and now owns more than 100 technology companies currently worth more than billions of dollars.

The purpose of the fund is not merely to provide technology development to young investors, but also to establish a platform offering opportunities for mentoring, opening to the world and reaching broad objectives. NWCTF includes passionate young people in the fund through a very special and systematic approach to create future technologies. Following initial training in Turkey and at Netas, these young people travel to Canada and participate in a process of familiarizing with 'Start-Ups'. They then chose their technology field and go-to-market strategy after observing global trends. Currently, there are a total of six companies actively operating under the fund.

Following initial training in Turkey and at Netas, these young people travel to Canada and participate in a process of familiarizing with 'Start-Ups'.

Twentify, founded in 2014 and offering service to companies as a mobile workforce management platform through its application "Bounty", currently works with more than 100 global research companies and corporate brands. Aside from Turkey, they also penetrated to Canada, UK, Ukraine, South Africa, Thailand, Nigeria and Mexico. As Twentify undergoes rapid growth, its application Bounty currently has more than 200 thousand users. The company tripled its turnover compared to last year, the next target is to grow faster in its current markets and to penetrate to the US market.

Pisano, a web-based customer interaction platform, is the second fastest growing company in the fund. The company increased its turnover eight times during the last twelve months through operations in six different countries. Pisano also provides services to many companies in the top 500 of Turkey and shares customer success stories at every opportunity in events and in the media. The company provides instant solutions to problems encountered by consumers and provides suggestions to corporations to rapidly update their marketing plans. Pisano has an operating structure aiming to maintain high levels of satisfaction among new-generation consumers. Founded in 2014 by four young computer engineer entrepreneurs, Pisano aims to bring new software developers to the industry through its Pisano Software Camp project initiated in 2016.

Iven develops IoT communication solutions to improve company efficiency, to reduce costs and to help shorten the delivery of new products. Offering service to its customers in Turkey and the US through a device and a user management platform, Iven connected around ten thousand devices to cloud platform in 2016. In this platform, different business models are offered to each corporation.

Startsup offers a turnkey solution including all critical functions such as a subscription based e-trade model website, payment system and management panel; and allows ready-for-sale e-trade websites to be built rapidly with minimum effort. Responding to demands in various industries since founded, Startsup aims for growth in the market, foreseeing that e-commerce will continue to grow globally and locally.

The "analytical measurement" plays a key role in improving customer experience, ***Deriva*** analyses visitor behaviors in stores to assist brands in creating marketing strategies and measuring the efficiency of implemented strategies. It ensures efficient results through its easy-to-use control panel. It also offers Location-Based Analytical Services that can easily be integrated to many systems used by corporations.

Founded in June 2016, the new company of the fund ***CreatorDen*** offers an automated media buying platform to brands and agencies in influencer marketing. Today, contents and recommendations created by social media influencers and brands are defined as one of the most effective and rapid methods in reaching customers, especially for fast moving consumer brands. CreatorDen's Self-Service platform ensures that its customers can easily transfer campaign information to social media influencers and monitor online the results.

R&D Facilities

Netas R&D Center Operates in 5 Main Domains:

- International R&D
- Cyber Security R&D
- ICT R&D
- Defense R&D
- New Technologies R&D

International R&D:

Netas has been working with international companies such as Genband, Kapsh CarrierCom and Microsoft for their R&D projects. Among these international companies, Genband, the largest R&D customer of Netas, is a company that offers intelligent network solutions in more than 80 countries for service providers and major corporations. Genband products and solutions, targeting connecting anything anywhere at any time, are in a leading position in the field of integrated communication. Next generation product development activities are planned with the collaboration of Genband and Netas. As a result of all these efforts, today, Netas is the Genband's largest R&D and inNOVAtion laboratory.

In terms of competitiveness, producing virtualized and cloud-ready versions of products among our targets as first priority activities. In this context, Netas conducts the R&D projects necessary for Genband to make virtualization in Experius and SPiDR products and to leverage, design, build cloud-based systems and infrastructure for those products.
It is foreseen that WebRTC technology will have a significant market share and impact in the mobile information and communication technology. Using this technology, Netas has developed the SPiDR WebRTC gateway, which is one of the first product in the world that enables audio and video communication among all IP-based systems (VoIP, IMS, PSTN).
In addition, SPiDR mobile SDK product based on SPiDR WebRTC gateway has been developed by R&D Center engineers. SPiDR mobile SDK makes possible to use WebRTC technology in today's popular mobile applications; it also includes protocol-based media support and cloud serving capabilities.
Rich Communications Suite (RCS) provides an environment in which telecom operators can compete with Over The TOP (OTT) service providers and allows end users to benefit from rich communications services
with a single, standard platform.
R&D engineers have developed the Smart Office project for our Genband client. This project is an end-to-end video conferencing solution designed for telecom operators. Telecom operators can use this solution to provide services to their customers. Using the video conferencing solution, participants at remote locations can meet and collaborate in a virtual meeting room at the same time. Participants can attend meetings using laptop, desktop, tablet and smartphones.

Cyber Security R&D

Netas penetrated into the next generation communications security market with three new products that were developed under NOVA brand and started providing service for the customers. Netas expanded its Cyber Security R&D unit to form four new departments: "NOVA Security Technologies Development", "Managed Network and Security Services", "Consultancy" and "Security Solutions". Netas' aim is to provide a wide variety of cyber security services for its customers, from product developments to delivery of solutions, to security consultancy.
Netas provides our customers with remote security services from Security Operations Center and provide effective and high quality security solutions and consultancy to solve customer problems. Moreover, NOVA Technology Design developed the first security products for next generation telecommunications systems and mobile media in Turkey, and continues to develop and design new security products that will meet with the requirements.

NOVA V-GATE - VoIP Call Management and Firewall

NOVA V-SPY - VoIP Vulnerability Analysis Tool

Using our expertise and know-how in the field of Voice over IP (VoIP) along with our state-of-the-art telecommunications laboratory, Netas developed two cyber security products of NOVA V-GATE and NOVA V-SPY. NOVA V-GATE, VoIP Firewall, enables operators to manage, secure and observe VoIP networks, whereas NOVA V-SPY, VoIP Vulnerability Analysis Tool, enables operators to reveal the potential weak points of their VoIP systems. Taking into account the statement, "Creating a secure VoIP infrastructure starts with vulnerability analysis", NOVA V-SPY is a vulnerability analysis tool that aims to exploit the vulnerabilities of VoIP systems by employing comprehensive attack scenarios. These scenarios include protocol compatibility scenarios and stress tests along with scenarios that contain malformed messages. NOVA V-SPY also generates a security report that advises the operator which steps to take in order to overcome the vulnerabilities it uncovered. NOVA V-SPY enables to investigate how secure a system is, detect its vulnerabilities and to report them to the system operators. NOVA V-GATE uses deep packet inspection and behavioral analysis to detect and prevent incoming cyber-attacks on VoIP systems. NOVA

Cyber Security achieved **CMMI (Capability Maturity Model Integration) Level 3,** which is a methodology accepted and used around the globe.

V-Gate enables detailed call control and provides in-depth analysis reports for our customers.

NOVA MSP - Media Security Platform

Among our portfolio of new technologies is NOVA MSP (Media Security Platform), which enables secure communications by utilizing the WebRTC technology. The increase in internet based communications services and smart phone usage has resulted in users questioning the security of the platform they are using, which in turn led to a demand in secure communications technologies. Therefore, Netas designed a modular and flexible solution composed of clients and servers that enable users to communicate via audio, video and text over a secure channel on the internet. NOVA MSP, which utilizes a smart card, provides secure communications for standard smart phones. It also provides rich features such as whiteboard sharing, location tracking and message broadcasting.

Our Area of Work

NOVA Cyber Security Technology Research unit is currently developing a Web Security Firewall and a Web Service Vulnerability Analyzer by utilizing Netas' expertise in web technologies. Also, fraud detecting solutions that use big-data analytics, business intelligence and machine learning are currently projects. Cyber Security achieved CMMI (Capability Maturity Model Integration) Level 3, which is a methodology accepted and used around the globe. CMMI, a methodology used mostly in information technology and defense projects, enables us to improve our project management processes, ensures on-time delivery and to stay within the budget limits. Cyber Security Group submitted 37 patent applications in the last 3 years, 12 of which were made in 2016, in order to protect our innovative solutions we utilized in the products we developed.

ICT R&D:

There are about 100 researchers working at ICT R&D department. They perform research and new product development activities in accordance with customers' needs. They also produce GSM-R communication solutions for the multinational company-Kapsch, and perform research and development for Cisco and Microsoft products for all verticals.
New Generation Wireless Network Project in GSM-R, which transfers all the communication at the high-speed trains to the IP domain, has been developed by Netas for Kapsh Corporation. The ICT R&D department has also contributed to the international GSM-R standards through this project.
In 2016, the e-ticket project developed for TFF (Turkish Football Federation), renewal project of disaster management system developed for AFAD (governmental organization of Disaster and Emergency Management Presidency), e-government project for Northern Cyprus Turkish Republic, biometric identification project for refugees, and NEOS AMI, cloud based advanced metering infrastructure project, have all been released for customer use.
By the TFF e-ticket project, Netas has focused on the fields requiring specialization such as blacklisting, entry approvals, people detection/identification, and developed and activated sophisticated e-ticketing software which provides simultaneous data flow from all stadiums and is scalable according to needs of TFF.
In the AFAD project, a software solution called AYDES has been developed and activated, for application of all sort of disaster management processes defined by AFAD Management Authority.
The registry system project based on residential addresses and moves of people that has been developed by Netas, was the first e-government project of Northern Cyprus Turkish Republic. Also, electronic ID cards were integrated to the project and dealt to the citizens of Northern Cyprus.
The biometric identification project aims to identify the refugees by biometric data and verification technologies, and to make it easier to reach and benefit from public/social services. Smart cards and smart biometric readers are integrated on a single device, then serviced on a cloud based infrastructure. Secure protocol stacks for security of the communication with the cloud have been researched and a new application-specific secure protocol stack has been started to be developed.
In energy vertical, Netas has released

Information Technologies R&D

NEOS Energy Management Systems

Product family. The first and fundamental member of this family is NEOS AMI (Advanced Metering Infrastructure), which is a cloud based management software. NEOS AMI provides remote reading/management of energy meters, storing meter data, generating various reports at several management levels. Special cabinets have been designed and produced in Netas facilities. In 2016, about 15,000 of these cabinets have been installed on transformer substations of Aydem and Gediz Electricity Retail Sales Corporations. There are two meters in each cabinet, one for energy distribution and related metering, remote monitoring, billing, reporting, management, etc., and the other one for street lighting. Through the communication system established and the automatic control system, the street lamps can be switched on and off remotely.

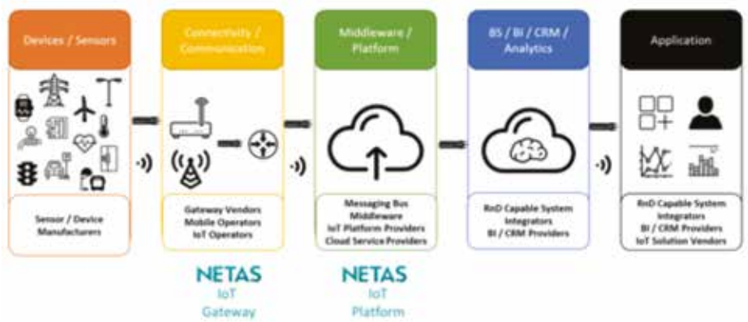
Defense R&D:

With more than 150 engineers, defense R&D department designs high-tech products for the Turkish Armed Forces. Many world-class strategic and tactical communication systems and general-purpose or application-specific military electronics and avionics system solutions have been designed, operated on the field and delivered for military systems.
Tactical Area Network Solutions are integrated communication networks realized with local design and production capabilities in order to provide the voice, data and video communication services required by the Turkish Armed Forces on the tactical area. These products have rugged design to operate at the harsh conditions of the tactical area. Deployment and field test activities related with the developed products continue on customer sites.
ULAK Macro Base Station is the first 4.5G-compatible base station which is developed locally in Turkey and consist of Baseband Unit (BBU) and Remote Radio Unit (RRU). BBU is completely developed by Netas including hardware and mechanical design, software which consist of physical layer, MAC layer, Scheduler, RLC and PDCP software, IPv4 ,IPv6 protocols and X2, S1 protocols design. The product has the Release 11 feature that meets mobile broadband data needs in Commercial and Public Communication and Netas is among the few companies worldwide that can offer this product. Deployment and field test activities related with the developed products continue on Turkish mobile operators' sites.
The IFF Mode 5/S System has been developed to meet the Identification-Friend-or-Foe need of the Turkish Armed Forces on various platforms. The system uses IFF equipment with high identification capabilities and the more reliable Mode-5/ Mose-S features. IFF systems, known as identification-recognition friend-foe systems, play an important role in military air surveillance and navigation control, air defense systems, maritime and coastguard security controls and acquire target information (altitude, tail number, task etc.). Defense Department develops control and power parts of the Interrogator and the transponder units and Remote Control Unit. Field test activities related with the developed products continue on customer sites.
Defense Department develops Naval Communication Systems customized for the requirements of various surface vessels and underwater platforms of the Naval Forces Command. The system provides secure/insecure voice and data communication including internal communication for intra-vessel and external communication for inter-vessel or vessel-to-shore communication.
Requirement determination activities related with IP based communication control systems continue.

Defence R&D

With more than 150 engineers, defense R&D department designs high-tech products for the Turkish Armed Forces. Many world-class strategic and tactical communication systems and general-purpose or application-specific military electronics and avionics system solutions have been designed, operated on the field and delivered for military systems.

New Technologies R&D



Netas IoT Solutions:

The IoT (Internet of Things) market, which has undergone rapid development in recent years, is expected to sustain its accelerated growth, especially with the development on 5G and Industry 4.0 technologies. Parameters such as data width, high speed and low latency that 5G technology provides, are key technologies for M2M and IoT solutions and the key enablers for the market growth. Different IoT solutions in heterogeneous structure interact with each other to achieve end-to-end services for end users in connected world. As Netas, we offer solutions to overcome these challenges and reflect our technological competence to the field in accordance with the sectorial configuration.

1. Netas IoT Gateway

IoT Gateway – as defined Middle Node in oneM2M standard – provides software services to allow integration of various protocol adapters in the south-bound direction towards the devices/sensors/ actuators as well as north-bound direction towards different types of IoT core/ cloud platforms. The product offers a key building block to enable the connectivity of both legacy and non-legacy devices and next generation intelligent infrastructure to the cloud.

2. Netas IoT Platform

The Netas IoT Core Platform is designed to be scalable in the dimensions of data, core services and availability for the needs of today's IoT applications, with many clients serving the same needs. The data architecture used (oneM2M) is so flexible that it can collect the information that many different devices produce, and can create the desired hierarchy between devices (eg, sensors, triggers).

4G/5G Solutions:

Netas has set up the first 4/5G lab after operators in the scope of 4G LTE Advanced studies in 2015. This laboratory is the first for Turkey to carry out research and development activities in 4/5G. These efforts were accelerated in 2016 to integrate mobile and fixed operator networks with global solution partners such as Wind River, Intel, HP and Mitel in order to turn them into NFV-based virtualized networks. Solutions for Turkcell and Turk Telekom NFV projects were developed and PoC studies were conducted.

Implemented innovative new products like the first 4G LTE Advanced Base Station design in Turkey,

Two critical components of 4G and 5G LTE network are now being developed in R&D:
- Multi-Access Edge Computing (MEC) product can provide functions for QoE and QoS improvements such as network slicing, location and latency sensitive services and network monitoring
- AAA (Authentication, Authorization and Accounting) server is used as a system for tracking user activities on an IP-based network and controlling their access to network resources

Netas R&D Ecosystem

Netas, operates with its R&D Center that employs over 700 researchers, who have a deep insight into the next generation technologies. The company undertakes large - scale projects for the communications infrastructures of the leading banks of the country, and customized projects for health care, energy and sports industries, while focusing on the finance, education and public safety.

Knowing the importance of a strong R&D Center, we focus on the following key topics for the purpose of expanding and strengthening the scope of R&D ecosystem:

Innovation is our Strongest Muscle

One of the most important goals of Netas is to make innovation an integral part of our corporate culture and enrich our product portfolio by adding high-technology value added products that would compete globally. For this purpose, we have organized various innovation events such as the Focus Innovation/ Hackathon/ Innovation Workshops, and implemented innovative new products like the first 4G LTE Advanced Base Station design in Turkey, integrator role in mobile and fixed operator network transformation via NFV based virtual networks, products like MEC, AAA for 5G security infrastructure, and VoIP cyber security (NOVA Cyber Security Product Family) projects with certain "path-breaking" capabilities.

Netas also planned other projects to become the market leader in vertical industries. The company started R&D activities in IoT technologies via "Smart Electric Meter" project and continued with Smart Home and Smart Door projects. Due to the standardization and security requirements of IoT infrastructure and the necessity for compatible IOT systems, Netas started development of IoT Gateway and IoT Platform products.

Netas aims to become a prominent and leading company both in domestic and international markets with its hands-- on experience in the IoT. It has EU Project applications in this field like "Mine Project",

Netas, operates with its R&D Center that employs over 700 researchers, who have a deep insight into the next generation technologies.

"Appstacle: Smart Vehicles" and "STeM: Secure Transactions and E-- Medical Care Project" for this purpose.

Our R&D project portfolio includes more than 50 projects, 40% of those are outcomes of innovation activities and process.

Netas in Management of EU Framework Programs

In order to increase international cooperation Netas spent consistent and patient efforts in the European Union (EU) Framework Programs. As a result, it has elected as Vice Chair of the Celtic-Plus Core Group, which is a EUREKA ICT cluster and an industry-driven European research initiative. This will provide its active support for the formation of European technology as being part of the top management of the Celtic Plus organization, supporting more than 500 members and industry-initiated multinational, innovative and competitive R&D projects. It was also elected to the Board Member of Networld2020 technology platform, and became a member of 5GIA (5G Infrastructure Association).

In 2016, Netas has been in 5 H2020 project consortia's with national/international companies and universities, and increased project application count to 14 in last 2 years. Besides, company has 3 Celtic plus projects, 4 ITEA3 projects for those funding being approved.

University Cooperation for 25 Projects

For the purpose of improving university-industry cooperation, institutionalizing the relations and mutually determining projects that would be carried out together, Netas signed and currently maintain framework agreements with 15 national universities: Boğaziçi, ODTÜ, İÜ, Koç, Sabancı, Yeditepe, Özyeğin, Gazi, BAU, YTÜ, Gebze Teknik, Işık, İstanbul Ticaret, Kocaeli, Kadir Has.

We have completed the fifth semester in the M.Sc and PhD programs with Bahçeşehir University within the scope of "BAU Netas Techno Academy". Currently 46 R&D engineers are benefiting from this program and the academy gave its first graduates.

We are conducting various activities for the purpose of supporting the education of university students who attend studies that relate to our business. For this purpose we grant short-term internships to 30 students, long-term internships to 139 students, full scholarships to 20 students and Ph.D. dissertation support to 4 students.

Netas received the "3rd Best Company of 2015" award as the first and only telecom company of Turkey in Patent Awards

Netas experts currently give lectures at Boğaziçi University and Bahçeşehir University in order to share their knowhow and experiences. We contribute to classes and conduct seminars upon invitation from universities.

It is major necessity to meet the research needs of the industrialists and to create research programs related to the social demands and industry related problems. The SAN-TEZ Project has emerged and been prepared considering this important requirement. Netas attaches importance to this program and has 3 SAN-TEZ projects with Ege University, Sabancı University and İTÜ.

A total of 88 researchers are currently continuing their education: 72 of them are at the postgraduate, 16 of them are at Ph.D. level. 25% of the researchers have finished their post-graduate educations.

We took academic consultancy for the projects to benefit from the knowledge and research of academics, Netas has 25 academic consultancy agreements with universities for projects, 9 of which were started in 2016.

Netas awarded as Telecom Firm with Highest Number of Patent Applications

With the purpose of offering value added innovative products globally, it is important that ideas of Netas employees are registered and IP protected, and result of Netas works are shared in scientific platforms.

Netas uses patents and brand protection measures in order to protect intellectual property of our innovative ideas. The number of our patent applications was 35 (34 domestic and 1 international) in 2013, 37 (34 domestic and 3 international) in 2014, 71 (68 domestic and 3 international) in 2015. In 2016, total number of patent applications increase to 120 (118 domestic and 2 international) and reached to the peak number for last 5 years.

As a result of ever-increasing patent applications, Netas received the "3rd Best Company of 2015" award as the first and only telecom company of Turkey in Patent Awards organized by Turkish Patent Institute.

The study conducted by Netas researchers is shared through scientific papers and publications in order to become a nationally and internationally recognized R&D Center. 22 scientific papers (18 of which are international conferences), 2 articles and 6 posters, in total 30 scientific papers are published in 2016.

Developments in the Industry

Terror incidents, coup attempt, refugee tragedy and extremely volatile exchange rates had negative impact on the macroeconomic balances of Turkey in the year 2016. Global geopolitical developments further aggravated the difficult situation; such as conflicts in the Middle East, increasing terror attacks in Europe, the FED leaving debates on interest rates to the last days of the year, US presidential elections and Brexit.

Additionally, we witnessed a difficult 2016 in our business in North Africa, the Turkic Republics and the Asia Pacific region also due to exchange rate differences and oil prices. Despite these major hindering factors, Netas outperformed compared to the Y2016 industry and market averages.

A Year of Market Stagnation

Examining the performance of the global ICT market, we see that 2016 was marked by stagnation. The nominal size of the ICT industry is expected to be approximately $3.4 trillion. The market is expected to shrink by 0.6 percent on a nominal exchange rate basis and expected to grow by 0.5 percent on a fixed exchange rate basis (Source: Gartner Market Databook, Q4 2016).
The size of the ICT market in Turkey is expected to decrease nominally by 10.6 percent and become $17.4 billion due to impact of geopolitical risks and fluctuations in dollar exchange rate (Source: Gartner Market Databook, Q4 2016).

The Asian and North African markets, where Netas also operates, recorded similar trends in line with the globe, with a nominal growth of 0.5 percent. (Source: Gartner Market Databook, Q4 2016).

IT Services and Software Continued To Grow

Examining sub-segments of the world IT industry on a nominal exchange rate basis, we expect the software and IT Services categories to become the fastest growing fields, with growth rates of 6.9 percent and 3.9 percent respectively (Source: Gartner Market Databook, Q4 2016). Growth rates of the software and IT Services markets are expected to increase until 2020. In addition to these two categories, high growth is predicted also in the data center systems category in the Turkish market for the same period.

Cyber Security is of Critical Importance

2016 was a year where cyber security gained importance in all areas. Many cyber-attacks took place throughout the world, targeting public and private sectors as well as end-users. As a result of the largest recorded DDoS attack, targeting the DNS provider company Dyn in October 2016, access to many websites using Dyn services was either blocked or restricted. This attack was remarkable as it affected not only computers but also devices such as IP cameras and printers connected to the Internet.

Protection of critical facilities and institutions in the cyberspace is now considered to be an integral part of the national security. The rise in the number of cloud users and the increasing importance of mobility create new threats and require additional appropriate security measures. In this context, the cyber security solutions market of Turkey, worth approximately $186 million, is expected to grow more than 11% per annum until 2020 (Source: IDC Turkey IT Security Solutions Market 2016-2020 Report).
As an industry leader in introducing new technologies to Turkey, we predicted the importance of cyber security 5 years ago and kicked off R&D studies. Our R&D efforts continue with success and momentum. In 2015 we launched NOVA, the first cyber security product family of

Turkey. In 2016 we developed our network monitoring services and started working on establishing Netas Cyber Operations Center, in order to ensure fast access for our customers to high quality and local cyber security and network monitoring services. In 2017, in addition to monitoring and managing our customers' networks from this center 7/24, we will ensure cyber security threats are proactively eliminated.

Through our engagements and partnerships, we are closely monitoring the rapid technological breakthroughs in cyber security in the Silicon Valley. As a result of our efforts, the service portfolio of the Netas Cyber Operations Center has been shaped with the experience and technological contributions of strong US cyber security partners in addition to homegrown Netas R&D products.

We Are Leading Digital Transformation

Leveraging next generation technologies to improve business and ensuring efficiencies to gain additional added value have become the priorities in ICT leadership. Now enterprises are differentiating themselves through technologies such as cloud, the Internet of Things (IoT), mobility and virtual reality. As a pioneer of new technologies, Netas participates in the TFF e-ticket and the Smart Stadium Projects as well as the Fatih Project which are considered exemplary not just in Turkey, but in the Region.

We have focused on utilizing the experience we gained in our country in international markets. Following the project we completed for the Algerian Ministry of Defense, in 2016 we signed an agreement for a substantial data center modernization project, an integral part of the digital transformation of Sonatrach, the largest oil company of Algeria and Africa and the 11th largest oil company of the world.

In 2016 we enriched our solution portfolio with a new organizational structure focused on vertical technologies for business applications projects, one of the most important building blocks of the digital transformation, and in collaborations with global leader companies.

We will continue our determination to become the architect of Turkey's digital future in the coming years with our robust solution portfolio and our strong system integrator identity, fulfilling the wide-ranging demands of our customers.

Leveraging next generation technologies to improve business and ensuring efficiencies to gain additional added value have become the priorities in ICT leadership

FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS

TL Million	12M16	12M15	y/y%
Revenue	**969,8**	**1009,0**	**(3,9%)**
Cost of Sales	(835,4)	(895,1)	(6,7%)
Gross Profit	**134,4**	**113,9**	**18,0%**
Gross margin %	*13,9%*	*11,3%*	*257*
Sales, Marketing & Distribution Expenses	(44,4)	(42,6)	4,3%
General Administrative Expenses	(24,4)	(23,8)	2,3%
Research & Development Expenses	-	(4,0)	-
Incentives	3,1	9,7	-
EBIT	**68,7**	**53,2**	**29,1%**
EBIT margin%	*7,1%*	*5,3%*	*181%*
Depreciation	22,5	20,3	10,5%
EBITDA	**91,1**	**73,5**	**24,0%**
EBITDA margin%	*9,4%*	*7,3%*	*211*

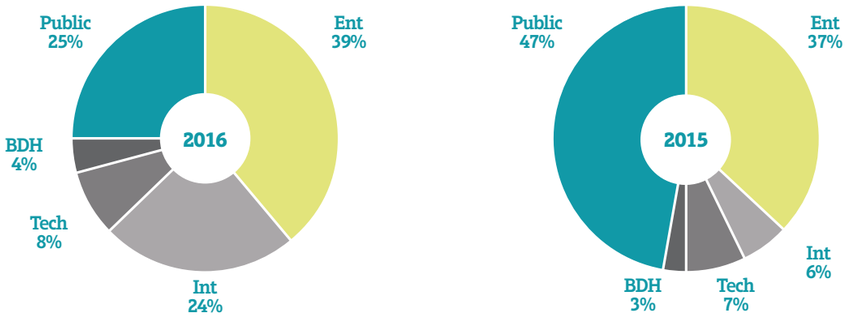
EBIT = Gross Profit – Sales, Marketing and Distribution Expenses - General Administrative Expenses – Research and Development Expenses + R&D Incentives R&D Incentives: Disclosed under Other Income from Operating Activities in the financial statements prepared in accordance with the Capital Markets Board requirements. Operating Expenses = Sales, Marketing and Distribution Expenses + General Administrative Expenses+ Research and Development Expenses - R&D Incentives EBITDA= EBIT + Depreciation

FINANCIAL HIGHLIGHTS

Orders & Revenue

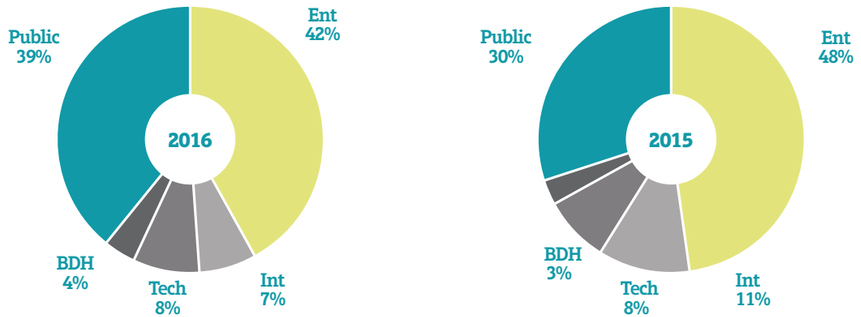
Orders booked in 2016 was TL 878.9 million (USD 290.7 million) and orders on hand were TL 637 million (TL 210.4 million). Order booking performance of international markets improved significantly in 2016 with the positive contribution of Sonatrach project signed in December 2016. Despite the Group's total order booking performance decreased by 18.3% compared to the previous year mainly due to the slowdown in public and enterprise segments, decline in order on hands was limited to 2.4% in terms of TL year on year.

Orders Booked Breakdown



Consolidated revenue declined by 3.9% in 2016 compared to 2015 mainly due to the lower performance in international markets. Despite the unfavorable effect of international markets and Enterprise segment on sales revenue, improvement in BDH and public segment narrowed the gap on a large scale. Domestic revenue grew by 2.5% on a year over year basis.

Revenue Contribution



FINANCIAL HIGHLIGHTS

2016 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated (*)	Total
Revenue	382,0	412,1	68,1	73,0	34,7	-	969,8
Cost of sales	(323,1)	(362,1)	(54,3)	(69,8)	(18,0)	(8,2)	(835,4)
Gross margin	58,9	49,9	13,9	3,2	16,7	(8,2)	134,4
Sales,marketing and distribution	(14,3)	(21,2)	(8,8)	-	-	-	(44,4)
General administrative expenses	-	-	-	-	-	(24,4)	(24,4)
Research and development expenses	-	-	-	-	-	-	-
Operating profit / (loss) of segment	44,6	28,7	5,0	3,2	16,7	(32,6)	65,6
Operating Profit Margin	12%	7%	7%	4%	48%		7%

2016 (TL million)	Public	Enterprise	International	Technology	BDH	Unallocated (*)	Total
Revenue	302,4	485,7	115,8	76,5	28,6	-	1.009,0
Cost of sales	(269,5)	(438,5)	(82,1)	(71,3)	(27,6)	(6,1)	(895,1)
Gross margin	32,9	47,2	33,7	5,2	1,0	(6,1)	113,9
Sales,marketing and distribution	(14,8)	(19,7)	(8,1)	-	-	-	(42,6)
General administrative expenses	-	-	-	-	-	(23,8)	(23,8)
Research and development expenses	-	-	-	(4,0)	-	-	(4,0)
Operating profit / (loss) of segment	18,1	27,5	25,6	1,2	1,0	(29,9)	43,5
Operating Profit Margin	6%	6%	22%	2%	4%		4%

Public Segment

espite declining order booking performance in 2016 due to the challenging economic and political environment in the domestic and international markets, we made a good progress in public segment and reported 26.3% revenue growth compared to the previous year. The ban imposed for government tender bids on May 31, 2016 for one year had a limited impact on Group's full year financials thanks to diversified customer portfolio more than 1500 in domestic and international markets.

Government projects share increased from 17% to 25% in total revenue of 2016 with the positive touch of Fatih and TFF (Turkish Futball Federation) projects during the year.

Furthermore, public safety projects had positive impact on 2016 financials. Share of public safety projects in total revenue increased from 6% to 11% in 2016 compared to the previous year thanks to continuing projects with Aselsan, Roketsan and among others.

Enterprise Segment

Order booking performance of enterprise segment was down by 12.2% in terms of TL due to the unfavorable market conditions. Despite 15.1% revenue decline in FY2016 compared to the previous year, margin contribution increased by 4.3% thanks to the high profitable projects. Enterprise segment's contribution to the consolidated EBIT was TL 29 million in 2016.

FINANCIAL HIGHLIGHTS

International Segment

International operations delivered a significant order booking performance in 2016 through Sonatrach project signed in December 2016. Year on year basis, orders booked grew by 220.3% in 2016. Excluding Sonatrach project, order booking performance of international markets was still over the previous year thanks to continuing large-- scaled projects as ATM Mobilis Project in Algeria, signed in 2014 for five years for the improvement of 2G and 3G transmission infrastructure of and delivery of radio frequency (RF) optimization solutions for ATM Mobilis, an Algerian mobile operator. Revenue for this line of business declined in 2016 compared to the previous year due to high base of 2015.

Technology Segment

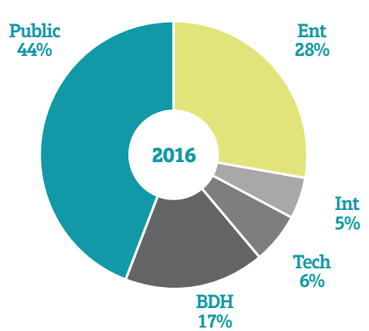
The relations established with multinational companies such as Genband, Kapsch, Mitel were also continued in 2016. Kapsch project was completed in December 2016. Group's revenue in Technology segment was relatively flat in 2016 compared to the previous year due to the challenging market environment.

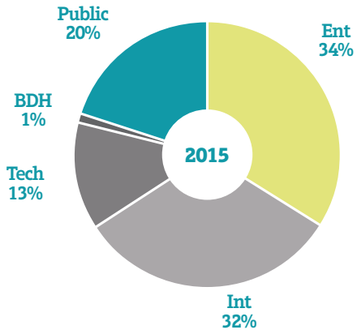
BDH

In spite of an another challenging year for whole service providers, BDH's revenue increased by 21% in 2016 and order booking performance grew by 11.6% compared to the previous year thanks to its successful operational performance and improved management efficiency.

BDH's EBIT contribution was TL16.7 million in 2016 significantly higher than its level in 2015 (TL 1 million) due to focusing on more value added servicing business. BDH's revenue continued to grow in 2016 and its share in total revenue increased from 2.8% to 3.6% compared to 2015, reflecting the increasing focus on value added services. The Group will continue to focus on its market execution to leverage the high potential of the market going forward.

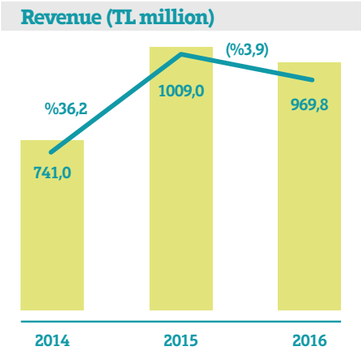
EBIT Contribution





Consolidated Performance

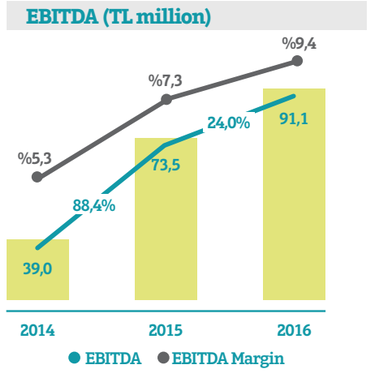
Consolidated sales revenue was TL 969.8 million in FY2016 contracted by 3.9% year-on-year basis mainly due to the lower performance in international markets widely offset by good progress in Revenue (TL million)
BDH and Public segment. Despite the challenging market 1009.0 conditions, Turkey operations delivered 2.5% revenue growth on a consolidated basis year on year at TL 820.1 million thanks to continuing large - scaled project.



Consolidated gross profit margin 2014 2015 2016 increased by 257 bps to 13.9% in FY2016 over the previous year. As a result of the successful implementation of new servicing strategy which contributed significantly in gross margin. Gross margin from service segment reached 19% of total revenue in 2016 versus 8% in 2015.
In 2016, Operating expenses excluding depreciation and amortization (OPEX) were lower compared to the previous year helped by successful measures to cut costs and improve efficiency. Consequently, Group's consolidated EBIT increased by 29.1% to TL 68.7 million, with the EBIT margin increasing by 181bps to 7.1% in FY2016 from 5.3% in FY2015 thanks to its new service strategy.
Other operating expenses increased from the level of TL 30.2 million in 2015 to 50.7 million in 2016 reflecting the provision* booked in YE2016 financials for the trade receivables from Nortel Networks amounting to TL 21.7 million and other provision expenses for doubtful receivables.
*The provisions consists of Nortel receivables provision amounting to 45 % of net-off Nortel companies' trade receivables and payables which is approved by the related authorities

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) surged from TL73.5 million in FY2015 to TL 91.1 million, representing an increase of 24.0%. EBITDA margin marked as 9.4% in FY2016 with 211bps increase compared to last year, over the Group's full year guidance of 100bps.

Consolidated financial income of the Group was TL 51.4 million in FY2016



Consolidated Performance

compared to TL 60.3 million in FY2015 as a result of lower non-cash FX gain compared to the previous year. During the same period, financial expenses increased due to refinancing of bank loans to fund the delay in Fatih Project after the July coup attempts and resulted in TL 49.8 million financial expenses in FY2016 versus TL 38.2 million in FY2015.

Accordingly, Group recorded TL 18.7million net income in FY2016 versus TL 34.3 million in FY2015 reflecting the effect of the provisions made for the trade receivables from Nortel Networks.

Debt Structure & Net Working Capital

Group's cash and cash equivalents was TL 115.6 million as of YE2016 leading to a net debt position of TL 239.2 million. Gross financial debt was TL 354.9 million as of 2016 and approximately 80% of debt in TL and 20% held in USD. Maturities of financial debts are less than one year.

(TL million)	Consolidated Gross Debt	Cash & Cash Eq.	Net Debt
2016	354,9	115,6	239,2
2015	333,1	226,1	107,0

2016	TL	USD
Short Term Debt	349,5	99,3
Credit Interest Accruals	5,4	1,5
Total Debt	**354,9**	**100,8**

Net working capital* (inc. non-current trade receivables and trade payables) requirement of the Group increased to TL 665 million in FY2016 in an absolute term (FY2015: TL 431 million) due to financing of projects.

Net Working Capital = (Total Current Assets – Cash & Cash Eq. + Non–current Trade Receivables)– (Total Current Liabilities – Financial Liabilities + Non-current Trade Payables)

CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABILITY

Netas Healing Forest

Pursuant to our goal to achieve "clean environment and clean industry", as Netas we created the Netas Healing Forest in November 2015 in cooperation with the Ministry of Forestry and Water Affairs, the General Directorate of Forests and the Regional Directorate of Forestry of Istanbul.
Located over a field of 10 hectares in Gazikoy, at the county of Sarkoy in the province of Tekirdag, the Netas Healing Forest is home to 23 different species of trees, including white mulberry, hawthorn, almond, walnut, laurel, stone pine, cherry laurel, chestnut, calabrian pine, cranberry, strawberry tree, rosehip, mahleb, medlar, cypress, persimmon, sour cherry, crabapple, and wild plums, as well as many medicinal aromatic herbs such as sage, rosemary, thyme and lavender. More than sixteen thousand trees have been planted in the Netas Healing Forest, where we aim both to preserve and develop biodiversity and to ensure that villagers in the region are able to gain additional income.
Changing the lives of the people of Gazikoy for the better, the Netas Healing Forest not only provides opportunity to the people of the region to benefit directly and economically from the non-- wood aromatic value of the herbs and the wild fruits, but also it turns the region into a source of oxygen. The Forest ensures increased sustaining of wild fruit types in their suitable environments, contributes to preservation and development of wild life in the region, encourages beekeeping and serves to increase the existing ecotourism potential. Full support of the project by the people of Gazikoy has had a significant role in the success and continuation of the project.
We will continue with our projects to prevent waste of natural resources and contribute to the preservation of nature.

Sustainability

Environmental sustainability requires efficient use of renewable resources and acting responsibly towards nature. Netas works to preserve natural resources and pass them onto future generations in their most pristine form possible.

Our company has an effectively implemented system to mitigate its negative effects on the environment, where quantitative target values are determined each year and quarterly meetings are held by the Environmental Board to examine compliance with these ratios and to review the data, the results of which are reported to the senior management.

Our company continues its efforts to make more efficient use of raw materials and energy, take measures to protect ecological balance, reduce waste, preserve human health and the environment and develop environmental awareness.

Accordingly, Netas has decreased its energy intensity by an average of 66.3% during the last 3 years, according to the reference values from 2008-2012 and was awarded the first prize in the category "Most Efficient Industrial Facility" (EVET) in the Energy Efficiency in the Industry Project Contest (SENVER), organized for the 17th time by the Directorate of Renewable Energy of the Ministry of Energy and Natural Resources. Moreover, the ISO14001 Environmental Management system we established as part of our environmental responsibility and to fulfill legal requirements, has successfully passed the interim audit performed by the TUV NORD audit organization.

NETAŞ
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HUMAN RESOURCES

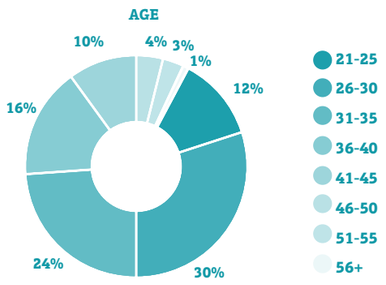
Performance Management

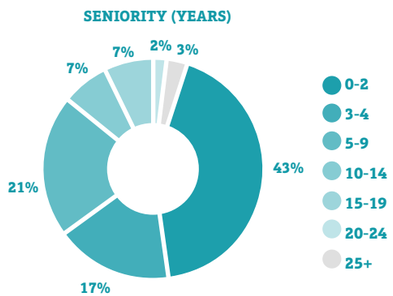
Performance management as an important part of the compensation management aims to ensure employees to be incentivized in a consistent, fair and encouraging way while another purpose is to lead employees' career developments and improve their skills according to their development needs, establish supportive steps in training and career planning monitor the achievements on objective targets and provide meaningful feedback. The system includes multiple steps to get objective views of more than one participant; other than the immediate supervisor, the performance of employees can be also asked optionally to the stakeholders while joint feedback-sharing and peer review meetings are also held within that department.

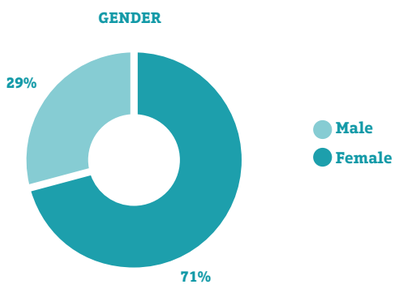
Performance management system does not only measure the success of the mutually agreed roles and responsibilities of the employees; but also measures performance with the core values of Netas, which are key for Netas's vision of working in global standards and becoming the # 1 system integrator of Turkey and the region in the current dynamic and developing nature of the IT sector.

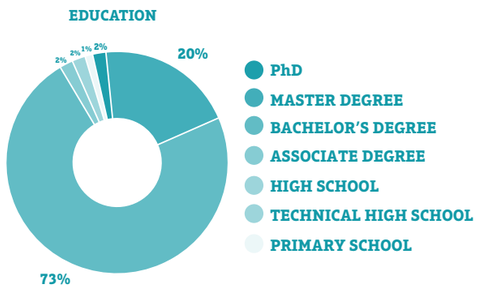
Our Employees in Figures

As of December 31, 2016, we have 2,082 employees with an average age of 33 and 29% of whom are women.









Our Human Resources Activities

Netas Coop Program (long-term internship program), which was launched in June 2014, ensures that the students gain experience before they begin to work. This program offers 150 interns on average every year the chance to gain experience. In 2016, 3 programs were held in fall, spring and summer.

With this program, we go beyond the standard practices and provide students the opportunity to work in different departments at our R&D Center in Kurtköy and gain experience in various projects including research projects throughout the internship period. Some of these projects are VoIP switchboard design, VoIP and web security projects, IPv6, JITC, Log Wizard, Smart Office and Application Server Replacement.

The students who work as a full-time intern for at least 3 months and complete their internship successfully during fall, spring and summer programs are offered part-time jobs while they continue their education to ensure that they gain professional R&D experience while they proceed with internal training and development processes. Through regular communication between human resources and R&D teams and with continuous feedback and internal trainings, we contribute to the development of candidate engineers before graduation. With this program, we are offering full-time jobs to candidates who have 8-18 months experience in Netas technologies, comply with our company culture, pass certain evaluation criteria, prove themselves through their success and above all, want to shape their career with us. This practice also enhances our cooperation with universities and our social responsibility initiatives.

- **"COOP Roadshow"** activity was organized for promotion of COOP program. For this activity, various spaces from the gym to the laboratory and from the pool to the server rooms were videotaped with 360 degree cameras, Netas working environment was shown to 4350 students in 6 different universities through virtual reality goggles and student applications for COOP program were taken. COOP applications increased 3.7 times by the end of the program.
- 540 actions took place in our recognition and reward system RecogNetas and several gifts and privileges representing these rewards were delivered to the owners. As of December 26, 2016 the interface of RecogNetas system was renewed to enable access to the system through an application on iOS and Android smart phones.
- **The announcement templates** and texts were renewed to ensure that the employees hear about all the improvements in Netas, the news and the success stories first. All announcements were uploaded to our Intranet, our main internal communication channel.
- All innovations and announcements from birthday celebrations for our employees to news about success, compliment and awards were included in this channel.
- Our mailing drafts used for internal announcements and for announcing all news, innovations, success stories and compliments were renewed.
- Automated e-mails for **occasional social changes** of our employees were prepared and shared with our colleagues who married, had a baby or lost someone.
- Our designs for online channels such as **Kariyer.net** where the company is represented were renewed. Netas career page was created in **Linkedin.**
- **Annual calendar of special days** was prepared. Furthermore, a message was sent by our CEO and our employees were surprised on special occasions. Candies and Turkish delight were sent on religious holidays and on New Year's, cookies on Father's Day and flowers on Mother's Day. On April 23, children of our employees were invited to our office in Kurtköy, for activities

such as theatre, face painting and sausage balloons.

• **Tenure ceremony** was held for our colleagues for their multiples of fifth year anniversaries in service.

• Our Benefit Banafit flexible benefits kick off activity was held simultaneously in all locations.

• **Our orientation kit** was revised and our Guide for Netas Personnel document was completely renewed.

• In total 2 BizBize, 17 skip level and 3 GIS activities were organized for different business units.

• **"Lunch and Learn sessions"** were organized on 12 different topics to which our employees participated.

- Amnesia & Dementia and Causes
- Oral and Dental Health
- Breathing Techniques and Breathing Awareness
- Dieting and Healthy Eating
- Organ Donation and Organ Transplantation
- Secrets of Staying Fit
- Stress and Stress Management
- Importance of Pre-School Education and School Selection
- Diving - Scuba Diving
- Breast Health
- Eye Health in Professional Life
- Being a Working Mother
- Cooperation with 58 brands

was established through corporate **discount agreements.**

• 16 employees started master degree programs and 2 employees started the doctorate program through **BAU Netas Technoacademy** which was established with the cooperation of Bahçeşehir University and Netas. With this program, which was offered with 75% percent discount, our employees were given a chance to improve themselves and took some of the classes at Netas offices through "my campus is my workplace" approach.

Social Activities

Communication between our employees is very important to us. ProAktif regulates internal and external organizations with the aim of strengthening the communication within Netas, enhancing employee satisfaction and loyalty, and increasing interdepartmental synergy.

The members of ProAktif, which is a social formation that values any ideas from our colleagues; prioritizes codes of conduct while evaluating these ideas; strengthens our communication with each other and creates synergy; makes our lives at Netas more colorful, dynamic and fun; coordinates our social clubs; and has a dynamic structure, have been replaced. As a part of the ProAktif activities held with the leadership of internal communication, in 2016;

• The calligraphy club was established, and calligraphy courses were given for 2 semesters.

• Scuba diving club was established and the first diving activity was held in Marmaris.

• The theatre play named "Üç Kuruşluk Opera " was staged for 8 times.

• 3rd Semester photography course and 2 photograph compilations were organized with our Photography Community.

• 5 photography and culture tours were organized.

• Dancing courses in 2 different styles were organized.

• Surprise products were distributed 4 times.

• In total 6 workshops (2 painting, 1 marbling, 1 cooking and 2 botanic) were organized.

• As a part of the Netas Volunteers activities, 84 boxes of goods were donated to 6 different schools across Turkey through 3 different activities. Furthermore, 2 donation activities were held for Kızılay. Also, together with Solidarity Association For Physically Disabled, a fund raising was organized where enough funds to buy 7 wheelchairs were raised, and the chairs were bought; and a visit to Darülaceze (hospice) was organized.

• 9 answer and win activities were held and daily fruit distribution practices were performed.

Corporate Social Responsibility

As Netas, we have supported many projects for the benefit of the society in areas such as education, culture, art, sports and environment since our establishment.

This understanding is based on a sense of responsibility towards all of our social shareholders including our employees, customers, strategic business partners, stockholders, non-governmental organizations, universities and the media. We believe that success in social areas is also necessary for sustainable development of our country and therefore, we will continue to contribute to corporate social responsibility projects within the bounds of possibility.

Netas Fund for the Education of Orphans:

Netas Fund for the Education was established in 1985 with the aim of contributing to educational expenses of children of our colleagues who died during their service in Netas. Our employees were reminded of this purpose 3 times. Furthermore, donations were collected from the contributing employees in form of monthly cuts from their wages or one-off donations to contribute the educational expenses of 6 children that we supported in 2015-2016 period.

RISK MANAGEMENT

Risk Management

Credit Risk

Collection risk of the Group may be arising from delays in the collection of commercial receivables or lower interest rates applicable to assets in banks as compared to the market revenues. Commercial receivables are evaluated by the Group based on previous experience and current economic situation, a suitable amount is reserved for doubtful receivables (except for the receivables from Nortel group companies dating back to January 14th, 2009 and earlier as detailed in the financial statements footnote 7, due to predictability of collection) and clearly indicated on the balance sheet. The amount of overdue but not impaired financial assets is consisted of TL 26.522.361 receivables from Nortel companies. As a result of net-off Nortel companies' receivables and payables, 45 % provision amount is adjusted (31 December: TL 49.638.506).
Doubtful receivables of the Group are 4% of total receivables. Group management does not see any additional risk regarding the receivables other that the reserved amount. A credit limit is assigned to each customer and transactions are kept within such limits. The Group has a significant amount of assets in banks. In this sense, the Group assigns a credit limit to each bank and transactions are kept within such limits. Financial Audit and Treasury Department of the Group controls whether or not transactions are kept within such limits (Financial statements footnote 30).

Liquidity risk

Adaption of a management policy to ensure that the collection due dates for receivables comply with debt due dates protects the Group against liquidity risk. The Group holds adequate sources to be able to fulfill its current and future liabilities (Financial statements footnote 30).

Currency risk

GFunctional currency of the Group is USD and therefore, currency risk is associated for the most part with the shifts of USD value against TL and other currencies. With the purpose of limiting the effects of appreciation or depreciation of USD against other currencies, the Group makes use of its assets in compliance with its liabilities to the extent possible and undertakes contracted expenditures in the contract currency. In order to meet the US Dollar funding requirement and minimize the negative exposure to appreciation of US Dollar against Turkish Lira, the Group has entered into a series of "asymmetric zero-cost collar forward knockout" and "USD call option" contracts, which have been accounted for as a derivative instrument as of 31 December 2016 (Financial statements footnote 29).

Interest rate risk

Interest rate-sensitive financial assets are placed in short term instruments in order to avoid any possible interest rate fluctuations.

Information About Internal Control And Internal Auditing Activities

As specified on CMB Corporate Governance Principles, an Audit Committee with independent Board Members was established within the Group to ensure that the Board accurately performs its tasks and liabilities.

The Group performs internal control activities to define the operational, financial and adaption risks associated with the industry and business processes, take the measures against these risks or avoid them. Internal control activities include increasing process efficiency, ensuring same or similar implementations for all processes by setting certain standard procedures for business flows, facilitating the tasks, roles and responsibilities, increasing coordination between departments and ensuring full compliance with the legislation, laws and regulations.

CORPORATE GOVERNANCE COMPLIANCE REPORT

Human Resources Activities

SECTION I: CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE DISCLOSURE

In the conduct of its business activities Netaş Telekomünikasyon A.Ş. exerts utmost care to the requirements of Turkish Commercial Code, the Articles of Association of the Company, the Capital Markets Law, the Communiqués of the Capital Markets Board (CMB) and other relevant legislation. Aiming to create the highest level of value to its customers, shareholders, employees, business partners and the society with innovative and creative communication solutions, the Company gives great importance to transparency. In this regard, the Company has adopted "Corporate Governance Principles" published by the Capital Markets Board in July 2003. Since 2004, The Company has issued its Corporate Governance Principles Compliance Report together with its Annual Reports.

Netaş Telekomünikasyon A.Ş. complies with the compulsory provisions of Corporate Governance Communiqué published on the Official Gazette dated January 03, 2014 with the number 28871 and puts forth effort to comply with the discretionary provisions to a large extent. Our corporate governance understanding and practice are based on the core values, code of conduct, vision and objectives of our company and Corporate Governance Principles.

SECTION II- SHAREHOLDERS

2.1. Investor Relations

Netaş Telekomünikasyon A.Ş. has an investor relations unit reporting to the Company's Chief Financial Officer (CFO). The investor relations manager is also a member of the corporate governance committee. The contact information for the investor relations department of the Company are as follows:

*Çağrı DEMİREL**
Investor Relations Manager
Phone: +90 216 522 5209
Fax: +90 2016 522 2222
E-mail: cagrid@netas.com.tr

*Feral Derya UZAY YILMAZ***
Accounting and Control Director
Phone: +90 216 522 2951
Fax: +90 216 522 2222
E-mail: duzay@netas.com.tr

(*) Cagri Demirel was appointed in October 2016 after Investor Relations Manager Tuba Bektas resigned in September 2016.
** Feral Derya Uzay Yilmaz was appointed as of November 2016 to replace Defne Kavaklı as the second in charge in the Investor Relations Department.

The Investor Relations Department plays an essential role in,

Ensuring that records of correspondence between investors and the shareholding as well as the records pertaining to other data and documents are kept correctly, safely and up to date;

Responding to the information requests of shareholders regarding the shareholding;

With regard to the general meetings; preparing the documents to be submitted to the perusal of the shareholders and taking necessary measures as to ensure that general meetings are held in compliance with the relevant legislation, articles of association and other internal regulations;

Ensuring and monitoring that duties and obligations arising out of the capital market legislation including the issues related to corporate governance and public disclosure are fully respected.

The current key activities of the Investor Relations Department are as follows:

Information requests of our investors communicated through e-mail or phone have been replied in compliance with relevant legal regulations. Except from the requests involving confidential information and trade secrets, all of the information requests are met respecting equality principle.

It is ensured that general assembly is carried out in compliance with the relevant legislation, articles of association and other internal regulations.

Prior to the general assembly, informative documents are prepared for the perusal of the shareholders.
Legal obligations regarding public disclosure are fulfilled and it is ensured that required information is provided to Public Disclosure Platform so that such information is complete, clear, adequate, and direct and does not involve misleading expressions.

An analysts meeting was held in 2016, where financial results of 2015 were presented.

During the period, many information requests were received from shareholders and their representatives through e-mail and phone and these were replied in compliance with relevant legal regulations.

2.2. Exercise of the Information Rights by Shareholders

The majority of the requests were related to transfer of the OEP TURKEY TECH B.V.'s shares, fluctuations in stock prices, investments of the Company and dividend distribution. The requests were mostly received through telephone and electronic mail and were replied based on available information, to the extent permitted by legislation and confidentiality rules relating to business secrets. Requests received through electronic mail were responded through electronic mail.

Announcements related to the Company's activities and developments, which could be of interest to the shareholders, were disclosed to the public through Public Disclosure Platform in accordance with Communiqué of the CMB Material Events Disclosure. The media was also informed through press releases. These released and announcements were also placed on the website of the Company at www. netas.com.tr/en
The Articles of Association of the Company does not have a provision for the appointment of a special auditor; however, the shareholders have a right to request the appointment of a special auditor in accordance with Article 438 of Turkish Commercial Code. During the period no request was made for the appointment of a special auditor.

2.3. General Assembly Meetings

The Ordinary General Meeting was held on 2nd of May, 2016. The required majority of shareholders under the Articles of Association of the Company and the Law were present at this meeting. Shareholders and their representatives were present at the meeting. The invitation to the meeting was made in conformity with Article 14 of the Articles of Association of the Company and Article 414 of the Turkish Commercial Code and the provisions of the Capital Markets Law. Additionally, invitations were published in Turkish Commercial Registry Gazette, holders of registered shares were invited by registered mail and the meeting was announced at the Public Disclosure Platform (PDP). The meeting was conducted by the physical attendance and electronic participation of shareholders through the Electronic General Assembly System of the Central Registry Agency. In the notice of invitation, shareholders intending to participate through the Electronic General Assembly System were reminded of their obligations. The Financial Statements, Annual Report and The Dividend Distribution Proposal were made available for the review of the shareholders three weeks prior to the Ordinary General Assembly. Shareholders were allowed to comment and raise questions at the meeting. Proposals made by shareholders were put to vote at the General Assembly by the Chairman. No proposals were made for addition of items in the agenda of meeting. At the Ordinary General Assembly, shareholders were informed of donations made under a separate agenda item. There are no donations or charities in 2016.

In order to accommodate wider attendance, the meetings were organized at the head office of the Company in its social facilities. The minutes of the Shareholders Meetings were submitted to CMB, Borsa İstanbul and the regional office of the Ministry of Science, Industry and Technology, announced to the public through Public Disclosure Platform (PDP), registered with the Commercial Registry, published in the Commercial Registry Gazette and copies were sent to shareholders upon request and additional copies are made available to the shareholders at the head office and the web site of the Company for review.

2.4. Voting Rights and Minority Rights

According to the Articles of Association of the Company, every share has a right to one vote at meetings of shareholders. The ordinary and extraordinary meetings of shareholders are held in accordance with the Turkish Commercial Code. Minority rights are subject to the provisions of the Turkish Commercial Code and Capital Markets Law.

The shares of the Company are divided into two groups, where both (A) group shares are and (B) group shares are registered shares. The differentiation of the shares between (A) and (B) groups, does not give the owners any rights nor privileges, except as provided in Articles 9, 15, of the Articles of Association.

According to Article 9 of the Articles of Association; the required quorum for meetings and the required majority for resolutions of the shareholders shall be subject to the provisions of the Turkish Commercial Code (T.C.C.) and Capital Markets legislation. However, resolution of the shareholders concerning amendments to the Articles of Association shall require the affirmative votes of the shareholders representing at least one half of the total number of shares within Group A.

According to Article 15 of the Articles of Association; The Board of Directors of the Company shall be composed of 7 (seven) members elected by the general assembly of shareholders, for a period of 3 (three) years. Four of the seven members shall be elected from among the candidates nominated by Group A shareholders, provided that two of the seven shall be elected from among the candidates nominated by OEP Turkey Tech B.V. and one member shall be elected from among the nominees of Turkish Armed Forces Foundation, and three members shall be elected from among the nominees of the Group B shareholders.

Nominations by the Group B shareholders will be subject to their representation at the shareholders meeting and the number of nominees to be elected will be dependent upon the ratio of representation; In case the Group B shareholders are represented at the shareholders meeting by a ratio of at least 30 percent of the capital of the Company, all three members shall be elected from among the nominees of the Group B shareholders, In case the Group B shareholders are represented at the shareholders meeting by a ratio of at least 20 percent of the capital of the Company, two members shall be elected from among the nominees of the Group B shareholders and one member shall be elected from among the nominees of the Group A shareholders, In case the Group B shareholders are represented at the shareholders meeting by a ratio of at least 10 percent of the capital of the Company, one member shall be elected from among the nominees of the Group B shareholders and two members shall be elected from among the nominees of the Group A shareholders.

There is no cross shareholding relationship between the Company and its shareholders. Cumulative voting procedure is not stated in the Articles of Association and thus not implemented.

2.5. Dividend Rights

There is no privilege granted to shareholders regarding participation to the company profit. The Dividend Policy of the company has been submitted to shareholders on July 15, 2016 through the Public Disclosure Platform and the corporate website of the company. Dividend Policy shall be submitted to the approval of the general assembly at the first ordinary general assembly meeting.

There are no privileges with regards to participation to company profit, and the profit distribution procedure has been described in article 22 of the Articles of Association. At the general assembly meeting of the company held on May 2, 2016, the Proposal to Not Distribute Profit for the period, presented by the Board of Directors, was submitted to the information and approval of the shareholders and was accepted unanimously by all participants.

Accordingly, no profit was distributed for the relevant period.

2.6. Transfer of Shares

The transfer of shares is stipulated in Article 6 subparagraph (c) of the Articles of Association of the Company. Accordingly, bearer shares can be transferred without being subject to any limitation or condition. However, concerning the transfer of registered Company A shares the existing shareholders in Group A are entitled to preemptive rights which are required to be exercised within 30 days from the date of the offer for sale. Therefore, a shareholder wishing to transfer its shares, in full or in part, must first offer, in writing, to transfer its shares to the other shareholders in Group A in proportion to their respective shares, stating the price and other conditions for sale. If any shareholder, to whom the offer was made, declines to purchase the offered shares, such shares shall be offered to the other shareholders in proportion to their share ownership and this method will be pursued in the same manner until all shares are sold or rejected. Following the application of the above procedures, the transferor will be free to offer any rejected shares to third parties without restrictions, provided that the price and other conditions of sale are no more favorable to the third party than the price and other conditions contained in the initial offer.

SECTION III- PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Corporate Website and Content

The corporate website www.netas.com.tr/en of the Company is actively used both in Turkish and in English for implementation of the disclosure policy within the framework of the Corporate Governance Principles of the Capital Market Board.

3.2. Annual Report

The annual report is prepared in line with the capital market regulations and the Corporate Governance Principles of the Capital Markets Board.

SECTION IV- STAKEHOLDERS

4.1. Informing Stakeholders

Stakeholders are persons, corporations or interest groups such as employees, creditors, customers and suppliers, in direct relation with the company and having interest in the achievement of the Company objectives or in its activities. Stakeholders are invited to the meetings regarding any matters concerning them. For example, the Bizbize meetings are held for the employees and informative meetings are held for suppliers and distributors. Stakeholders are sufficiently informed through various channels such as e-mail and the corporate website on company policies, procedures etc. related to preserving their rights.

Stakeholders may share information through the investor relations e-mail and phone, to communicate any practices that they consider to be breaching the legislation or to be ethically inappropriate to the Corporate Governance Committee or the Audit Committee.

4.2. Participation of Stakeholders in Management

Models are being developed to support participation of stakeholders, especially company employees, in the company management, without disrupting company operations. The relevant groups can meet with company executives at any time. The opinions of relevant groups are received through employee satisfaction, customer satisfaction and supplier satisfaction surveys that are periodically conducted by independent organizations and the company, and strategies are developed accordingly.

4.3. Human Resources Policy

The fundamental aspects of the Company's human resources policy can be outlined as follows;

The success of Netas in a dynamic and rapidly changing information and Communication Technologies sector is dependent upon the contributions and development of its employees. The Company aims to maximize the potential, motivation and innovation of its employees in order to achieve corporate objectives. To this end, the Company provides equal opportunities for employment, rewards performance, promotes the development of individuals and teams, fosters environmental protection, and meets the requirements of health and safety regulations. Competitive compensation and social benefit programs are prepared, the knowledge and the competencies of the employees are assessed through the attributes defined in Core Competencies. Within the performance management process and throughout the career development process, employees are given opportunities to assess and develop their skills.

The human resources policy is available at the website of the Company. Related policies and procedures are accessible by all employees. Managers and Human Resources department are responsible to maintain relations with employees in line with the human resources policy. During the period, no discrimination complaint was received from the employees

4.4. Ethical Rules and Social Responsibility

The Board of Directors has established a Code of Conduct for the Company and its affiliates and communicated it to employees. No disclosure was made to the public.

Netas has been implementing Environment, Health and Safety Program since 1997. Within the scope of this program ISO14001 Environmental Management System and OHSAS 18001 Employee Health and Safety Management System are implemented. No claims were raised against the Company for environmental pollution.

Activities related to social responsibility of the Company include maintenance of relations with universities and the provision of scholarship to successful students in need. Students are offered opportunities for internships. Furthermore, through memberships in foundations and associations, contributions are made to the society, and to scientific and technological development. Voluntary initiatives of employees for public aid and environmental activities are encouraged and supported.

SECTION V- BOARD OF DIRECTORS

5.1. The Structure and Composition of the Board of Directors

The Board of Directors of the Company is composed of 7 (seven) members elected for three years by the general assembly of shareholders, from among the shareholders or their nominees. Four of the seven members are elected at the meeting of the Shareholders from among the candidates nominated by Group A and three members are elected from among the nominees of the Group B shareholders. The members of the Board of Directors can be re-elected.

There are no restrictions imposed on the Board of Directors concerning other duties and occupations they can assume other than the restrictions concerning conflict of interest and competition with the Company. Such restrictions are submitted to the approval of the shareholders each year at the General Meeting.

Activities of Directors outside the Company;

David Arthur Walsh is Chief Executive Officer at Genband, Andrew Glover Dunn and Joseph Patrick Huffsimth are executive managers at One Equity Partners based in USA, M. Cumhur Özdemir is a manager at Turkish Armed Forces Foundation, Memet Yazıcı is managing partner at TRPE Capital, Alpaslan Korkmaz is Chief Executive Officer at Kayı Holding and Emre Şehsuvaroğlu is the Head of Internal Audit at Yıldız Holding.

Members of the Board of Directors as of the end 2016 are as follows;

Name Surname	Title	Executive / Non- Executive / Independent	Start- Due Date
David Arthur Walsh	Chairman	Non-Executive	02.05.2016 / 3 years
TSKGV (Temsilci M. Cumhur Özdemir)	Vice Chairman	Non-Executive	02.05.2016 / 3 years
Joseph Patrick Huffsmith	Member	Non-Executive	02.05.2016 / 3 years
Memet Yazıcı	Member	Non-Executive	02.05.2016 / 3 years
Andrew Glover Dunn	Member	Non-Executive	02.05.2016 / 3 years
Alpaslan Korkmaz	Independent Member	Independent	02.05.2016 / 3 years
Emre Şehsuvaroğlu	Independent Member	Independent	02.05.2016 / 3 years
C. Müjdet Altay	General Manager		

The written statements of all independent members, regarding their independence in line with the criteria specified in the legislation, the articles of association and the communiqué:

To the Board of Directors of Netaş Telekomünikasyon A.Ş.;
I hereby declare that;

There have been no employment relations in management positions undertaking important duties and responsibilities; I do not jointly or individually own more than 5% share in capital, voting rights or privileged shares or no significant commercial relation has been established, during the last five years; between the Company or partnerships where the Company controls the management or has significant influence, partnerships controlling the management of or having significant influence in the Company or legal entities controlling the management of such partnerships; and me, my spouse and my blood relatives or my relatives by marriage,

I have not been partner of (5% and higher), have not been employed in management positions undertaking important duties and responsibilities or have not been a member of the board of directors, in companies to/from which the Company sold/purchased significant services or products in the framework of agreements, especially regarding audit (including tax audit, legal audit, internal audit), rating and consultancy of the Company, during periods when the services or products were purchased or sold, during the last five years,

I have the required professional training, knowledge and experience to duly perform the duties I shall assume as an independent member of the board of directors,

I do not have a full-time job in public institutions and organizations and if elected, I shall maintain this status throughout my term in office (except for university faculty membership),

I comply with the criteria for residence in Turkey according to the Income Tax Law No. 193 dated 31/12/1960,

I have strong ethical standards, professional reputation and experience to positively contribute in Company activities, to maintain neutrality in conflicts of interest between the Company and shareholders, and to freely make decisions by taking into consideration the rights of stakeholders,

I shall allocate time to Company affairs to follow the operation of Company activities and to fully fulfill the requirements of the duties I shall undertake,

I have not been a member of the Company board of directors for more than six years during the last ten years,

I do not serve as independent member of board of directors in more than three Companies management of which are controlled by the Company or by partners controlling the management of the Company; and in more than a total of five Companies traded in the stock exchange.

I have not been registered and announced on behalf of the legal entity elected as member of the board of directors.

There have been no events compromising the independence of the independent members serving as members of the board of directors in 2016.

5.2. Working Principles of the Board of Directors

The agenda for the meeting of the Board of Directors is determined by consultation between the Chairman, the members of the Board and the General Manager. The Board of Directors has held ten meetings during the period with the attendance of the required majority. Invitations to meetings were made at least three days in advance of the meeting together with the notification of the agenda. In order to facilitate communication with the Board Members and to provide related services a Corporate Secretarial Services function exists within the Company. In the event that differences of opinion are expressed in the Board Meetings, these are reflected in the minutes of the meeting. Questions raised and comments made at the meetings of the Board and related responses are recorded in the minutes of the meeting. Members of the Board of Directors are not granted weighted voting rights or veto rights under the Articles of Association.

According to the Articles of Association, the required quorum for Board meetings is the presence of five members of the Board. The majority vote of those present is required for the approval of any subject.

An amount of USD 20 million has been insured against possible losses to be incurred by the Company arising from faults of Members of the Board of Directors during service, and the insurance exceeds 25% of our capital.

5.3. The Number, Structure and Independence of the Committees

Three committees have been established by the Board of Directors as the Corporate Governance Committee, the Audit Committee and Early Detection of Risks Committee.

Corporate Governance Committee

Chairman: Alpaslan Korkmaz - Independent Board Member

Member: David A. Walsh- Board Member

Member: TAFF (Rep:M. Cumhur Özdemir)- Board Member

Member: Memet Yazıcı –Board Member

Member: Çağrı Demirel(*) – Investor Relations Manager

(*) Investor Relations Manager Tuba Bektaş has been replaced by Çağrı Demirel as of October 2016.

Auditing Committee

Chairman: Alpaslan Korkmaz - Independent member

Member: Joseph Patrick Huffsmith- Board Member

Member: TAFF (Rep: M. Cumhur Özdemir)- Board Member

(*) Investor Relations Manager Tuba Bektaş has been replaced by Çağrı Demirel as of October 2016.

Committee For Early Detection of Risks Chairman: Alpaslan Korkmaz - Independent member

Member: Joseph Patrick Huffsmith- Board Member

Member: TAFF (Rep: M. Cumhur Özdemir)- Board Member
Özdemir)- – Yönetim Kurulu Üyesi
As there are only two independent members, they serve in multiple committees.

Committee meetings are held one day before meetings of the Board of Directors.

As the Nomination Committee and the Remuneration Committee specified in the Corporate Governance Principles could not be established due to the structure of the Board of Directors, these duties have been undertaken by the Corporate Governance Committee.

Working principles have been prepared for the committees and arrangements have been made for follow-up by relevant functions. 4 corporate governance committee meetings, 5 audit committee meetings and 6 early detection of risks committee meetings were held in 2016.

The Audit Committee has communicated to the board of directors all its proposals regarding issues under its responsibility. The Corporate Governance Committee has offered recommendations to the board of directors on improvement of corporate governance applications and has supervised the work of the Investor Relations Department. The Early Detection of Risks Committee which works for early detection of risks endangering the existence, development and sustainment of the company, for taking measures, for detected risks and for risk management; has reviewed the Risk Management Systems of the Company in accordance with the Corporate Governance Principles and the Early Detection of Risks Committee Regulations.

5.4. Risk Management and Internal Control Mechanism

The Board of Directors has formed an Audit Committee composed of independent members and an Early Detection of Risk Committee to establish an internal control mechanism for the Company.

The Company implemented Sarbanes Oxley rules which were a requirement for its former parent Nortel Networks and continues to implement the same rules at its discretion even after the affiliation with Nortel Networks ceased. Within this framework the Company operates an internal control process.

The Company maintains its internal control activities in order to determine operational, financial and adaptation related risks originating from market conditions and business processes. Necessary measures to mitigate and avoid risks are taken accordingly. Activities relating to internal control include; increasing efficiency of processes, implementing same or similar procedures for all work conducted within the workflow, contributing to the conduct of roles and responsibilities, promoting coordination between teams, ensuring and controlling full compliance with provisions of rules, regulations and laws.

5.5. Strategic Objectives of the Company

The strategic objectives of the Company are reviewed and determined by the Board of Directors during budget review discussions within the scope of three year plans prepared by the management and submitted to the Board. The activities of the Company, the level of achievement of objectives and past performance are reviewed by the Board each quarter and at the end of the budget period.

5.6. Financial Benefits

Compensation for the Members of the Board of Directors is determined by the General Assembly of the Shareholders each year, in accordance with Article 15 of the Articles of Association. Accordingly, Board Members receive a monthly fee payable at the end of each month. There are no incentives available to Board Members based on performance in connection with the performance of the Company.

Financial benefits provided to members of the Board of Directors and senior management team are explained in the annual report
The Company did not lend any money, extend any credit, extend a personal credit through a third party, nor provided any guarantees to or in favor of any Member of the Board of Directors or any Manager of the Company.
Compensation policy is available at our website.

OTHER ISSUES

The issues contained within the scope of "Determination of the Minimum Content of the Companies' Annual Reports" regulations published by the Ministry of Customs and Trade, are as follows:

- The company acquired none of its own shares during the reporting period.
- The company did not undergo any special audits during the reporting period.
- As of the reporting date, the company was not a respondent in any suit whose outcome would be capable of significantly affecting either the company's financial position or the conduct of its business.
- As of the reporting date, none of the members of the company's Board of Directors had demanded the issuance of any report as provided for under Article 199/4 of the Turkish Commercial Code.
- The company's financial position is solid. There is no risk of its having insufficient capital or of its becoming insolvent.
- None of the persons from the company's management has been engaged in business, on their own behalf or on behalf of someone else that is in competition with the company, in accordance with the permission given by the general assembly.

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS' SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 AND INDEPENDENT AUDITORS' REPORT

(CONVENIENCE TRANSLATION OF THE REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Netaş Telekomünikasyon A.Ş.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of Netaş Telekomünikasyon A.Ş. ("the Company") and its subsidiaries (together will be referred as "the Group") ,which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Turkish Accounting Standards ("TAS") and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by Capital Markets Board and Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Netaş Telekomünikasyon A.Ş. and its subsidiaries as at 31 December 2016 and of their financial performance and their cash flows for the year then ended in accordance with Turkish Accounting Standards.

Emphasis of matter

Nortel Networks Corporation, the ultimate parent of Nortel Networks International Finance and Holding B.V. which is holding 53,13% shares of the Company until 22 December 2010 (see note 7), has announced that Nortel Networks Limited, which was another indirect parent of the Company, and certain of its other Canadian subsidiaries have obtained an order from the Ontario Superior Court of Justice for creditor protection under the Companies' Creditors Arrangement Act in Canada filed as of 14 January 2009. Nortel Networks UK Limited, and certain subsidiaries of the Nortel Group incorporated in the EMEA region, obtained an administration order from the English High Court of Justice under the Insolvency Act 1986. On 24 January 2017, the final revised plan is presented to Nortel Networks Inc., Delaware Region High Court of Justice about the payments which will be made to debtors as part of protection from the bankruptcy. According to this plan, Nortel Networks Inc. predicted that payments can be made from sales of different assets that belong to Nortel with the total estimated unsecured receivables between the range of 55,1%-61,2%. As detailed in Note 7, the Company's receivables from Nortel Group companies amounted to TL 48.222.475 as of 31 December 2016 (31 December 2015: TL 39.846.125), in the frame of this plan, the Company management booked a provision of 45% against for Nortel receivables on a net basis amounted to TL 21.700.114 in the accompanying consolidated financial statements.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 1 March 2017.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's and subsidiaries, localized in Turkey, set of accounts and financial statements prepared for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of DELOITTE TOUCHE TOHMATSU LIMITED

Burç Seven, SMMM Sorumlu Denetçi

İstanbul, 1 Mart 2017

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NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES

AUDITED CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 31 December2016	Previous Period 31 December2015
ASSETS			
Current Assets		115.641.750	**1.093.955.696**
Cash and Cash Equivalents	5	**1.122.788.685**	226.061.741
Trade Receivables		697.710.992	596.232.981
Due from related parties	*28*	*26.807.040*	*18.541.627*
Trade receivables, third parties	*7*	*670.903.952*	*577.691.354*
Other Receivables		511.938	251.083
Other receivables, third parties	*8*	*511.938*	*251.083*
Derivative Instruments	*29*		-
Inventories	9	83.991.024	109.927 103.016.525
Deferred Costs	11	148.684.598	99.108.517 32.716.639
Prepaid Expenses	10	16.848.978	36.458.283
Other Current Assets	19	59.399.405	
Non-Current Assets		**2 52.698.207**	**258.659.460**
Trade Receivables		88.574.586	109.479.328
Trade receivables, third	*7*	*88.574.586*	*109.479.328*
parties Other Receivables		*157.115*	145.962
Other Receivables,third	*8*	*157.115*	*145.962*
parties Property, Plant and	12	40.167.155	40.220.084
Equipment Financial		1.940.781	862.056
Investments		105.917.725	90.035.336
Intangible Assets	*13*	*64.500.278*	*53.290.807*
Goodwill	*13*	*41.417.447*	*36.744.529*
Other intangible assets	3	5.121.827	*2.601.418*
Associates	*19*	7.478.474	6.872.784
Other Non-Current Assets	10	1.053.159	1.098.957
Prepaid Expenses	26	2.287.385	7.343.535
Deferred Tax Assets		**1.375.486.892**	**1.352.615.156**
TOTAL ASSETS			

The accompanying notes form an integral part of these consolidated financial statements.

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES
AUDITED CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

	Notes 31	Current Period December 2016	Previous Period 31 December 2015
LIABILITIES			
Short Term Liabilities		784.118.707	866.372.756
Financial Liabilities	6	354.859.452	333.068.285
Derivative Liabilities	29	2.678.753	-
Trade Payables		240.464.539	350.117.975
Due to related parties	*28*	*1.321.109*	*45.443*
Trade payables, third parties	*7*	*239.143.430*	*350.072.532*
Other Payables		8.686.841	12.731.107
Other payables, third parties	*8*	*8.686.841*	*12.731.107*
Employee Benefit Obligations	17	17.825.631	13.034.339
Deferred Revenues	11	59.914.737	67.306.810
Provisions		21.178.816	21.376.150
Provision for Employee Benefits	*17*	*16.851.535*	*16.637.781*
Other Short Term Provisions	*15*	*4.327.281*	*4.738.369*
Advances Received	18	78.212.274	66.778.156
Current Tax Liabilities	26	297.664	1.959.934
Long Term Liabilities		41.672.308	49.041.503
Trade Payables		1.945.728	12.781.889
Trade payables, third parties	*7*	*1.945.728*	*12.781.889*
Provisions		22.207.434	20.513.651
Provision for Employee Benefits	*17*	*22.207.434*	*20.513.651*
Deferred Tax Liabilities	26	17.519.146	15.745.963
SHAREHOLDERS' EQUITY			
Equity Attributable to Equity Holders of the Parent		549.695.877	437.200.897
Share Capital	20	64.864.800	64.864.800
Capital Reserves		41.612.160	41.612.160
Other comprehensive income to be reclassed in profit and loss	16.764.885	7.661.632	
Currency Translation Reserves		*16.764.885*	*7.661.632*
Other comprehensive income not to be reclassed in profit and loss	230.056.150	145.334.434	
Actuarial Loss		*(8.240.661)*	*(8.321.961)*
Currency Translation Reserves		*238.296.811*	*153.656.395*
Restricted Reserves Appropriated From Profit		33.182.076	33.182.076
Profit for the Period		20 18.670.011	34.305.075
Retained Earnings		144.545.795	110.240.720
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1.375.486.892**	**1.352.615.156**

The accompanying notes form an integral part of these consolidated financial statements.

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES
AUDITED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

	Note	Current Period 1 January- 31 December 2016	Previous Period 1 January- 31 December 2015
INCOME OR LOSS FROM OPERATIONS			
Revenue	21	969.843.424	1.008.993.097
Cost of Sales (-)	21	(835.419.643)	(895.090.264)
GROSS PROFIT		**134.423.781**	**113.902.833**
Sales, Marketing and Distribution Expenses (-)	22	(44.406.817)	(42.588.722)
General Administrative Expenses (-)	22	24.402.568)	(23.844.072)
Research and Development Expenses (-)	22	-	(3.968.273)
Other Income from Operating Activities	23	4.840.922	11.091.203
Other Expenses from Operating Activities (-)	23	(50.720.228)	(30.248.471)
OPERATING PROFIT		**19.735.090**	**24.344.498**
Income from Investment Activities	24	147.978	179.642
Expenses from Investment Activities (-)	24	(106.583)	(248.408)
Income from Associates	3	1.257.100	624.581
OPERATING PROFIT BEFORE FINANCE			
INCOME		21.033.585	24.900.313
Financial Income	25	51.405.211	60.326.697
Financial Expenses (-)	25	(49.766.936)	(38.153.518)
PROFIT BEFORE TAX		**22.671.860**	**47.073.492**
Tax (Expenses)/Income		(4.001.849)	(12.768.417)
- Current Tax (Expenses) / Income	26	(313.751)	(2.499.583)
- Deferred Tax (Expenses)/Income	26	(3.688.098)	(10.268.834)=
PROFITAFTER TAX		**18.670.011**	**34.305.075**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income or expenses that will not be reclassified subsequently to profit of loss		**84.721.716**	**77.651.735**
Currency translation reserves		84.640.416	77.920.165
Actuarial gain/(loss)		81.300	(268.430)
Other comprehensive income or expenses that may be reclassified subsequently to profit or loss		9.103.253	2.346.071
Currency translation reserves		9.103.253	2.346.071
OTHER COMPREHENSIVE INCOME		**93.824.969**	**79.997.806**
TOTAL COMPREHENSIVE INCOME		**112.494.980**	**114.302.881**
Earnings per share	**27**	**0,2878**	**0,5289**

The accompanying notes form an integral part of these consolidated financial statements.

NETAŞ TELEKOMÜNİKASYON A.Ş. AND ITS SUBSIDIARIES
AUDITED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

			Other comprehensive income or expenses that may be reclassified subsequently to profit or loss		Other comprehensive income or expenses that will not be reclassified subsequently to profit or loss		Retained Earnings			
	Capital	Capital Reserves	Currency Translation Reserves	Currency Translation Reserves	Actuarial (Loss)/Gain	Restricted Reserves Appropriated from Profit	Retained Earnings	Retained Net Profit for the Period	TOTAL
Balance as at 1 January 2015	**64.864.800**	**41.612.160**	**5.315.561**	**75.736.230**	**(8.053.531)**	**32.809.042**	**98.768.665**	**11.845.089**	**322.898.016**
Currency translation differences	-	-	2.346.071	77.920.165	-	-	-	-	80.266.236
Actuarial loss	-	-	-	-	(335.537)	-	-	-	(335.537)
Deferred tax benefit on actuarial loss Net profit for the period	-	-	-	-	67.107	-	-	-	67.107
Total comprehensive income Transfer	-	-	**2.346.071**	**77.920.165**	**(268.430)**	-	-	**34.305.075**	**34.305.075**
Transfer to reserves	-	-	-	-	-	-	11.845.089	(11.845.089)	**114.302.881**
Balance as at 31 December 2015	**64.864.800**	**41.612.160**	**7.661.632**	**153.656.395**	**(8.321.961)**	**33.182.076**	(373.034)	-	-
							110.240.720	**34.305.075**	**437.200.897**
Currency translation differences Actuarial gain	-	-	9.103.253	84.640.416	-	-	-	-	93.743.669
Deferred tax loss on actuarial gain Net profit for the period	-	-	-	-	101.625	-	-	-	101.625
Total comprehensive income Transfer	-	-	-	-	(20.325)	-	-	18.670.011	(20.325)
Balance as at 31 December 2016	**64.864.800**	**41.612.160**	**9.103.253**	**84.640.416**	**81.300**	-	-	**18.670.011**	**18.670.011**
	-	-	-	-	-	-	34.305.075	(34.305.075)	**112.494.980**
			16.764.885	**238.296.811**	**(8.240.661)**	**33.182.076**	**144.545.795**	**18.670.011**	**549.695.877**

Retained earnings contain extraordinary reserves.

Retained earnings contain extraordinary reserves.

The accompanying notes form an integral part of these consolidated financial statements.

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 1 January- 31 December 2016	Previous Period 1 January- 31 December2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the Period		**18.670.011**	**34.305.075**
Profit from Continuing Operations		*18.670.011*	*34.305.075*
Adjustments to Reconcile Profit		22.452.952	20.318.101
Adjustments for Depreciation and Amortisation Expense	12-13	**92.358.942**	**60.232.327**
Adjustments for (Reversal of) Impairment Loss Recognised in Profit or Loss		25.543.958	4.126.220
Adjustments for (Reversal of) Provision of Receivables	*7*	*24.873.031*	*4.302.925*
Adjustment for Reversal of Provision of Inventory	*9*	*670.927*	*(176.705)*
Adjustments For Provisions		27.343.683	25.005.297
Adjustments for Provisions Related with Employee Benefits	*17*	*27.866.051*	*23.955.401*
Adjustments for (Reversal of) Lawsuit and/or Penalty Provisions Adjustments	*15*	*(651.268)*	*2.549.944*
for (Reversal of) Provisions Arising From Sectoral Requirements	*15*	*128.900*	*(1.500.048)*
Adjustments for Interest (Income) and Expenses		41.760.575	42.959.388
Adjustments for Interest Income	*25*	*(1.287.919)*	*(1.054.628)*
Adjustments for Interest Expense	*25*	*43.793.734*	*35.076.184*
Unearned Financial Income from Credit Sales	*23*	*(745.240)*	*8.937.832*
Adjustments For Unrealised Foreign Exchange Losses (Gains)		(30.014.406)	(44.282.739)
Other Adjustments for Fair Value Losses (Gains)		2.568.826	(109.927)
Adjustments for Fair Value Losses (Gains) on Derivative Financial Instruments	*29*	*2.568.826*	*(109.927)*
Adjustments for Share of Profit of Investments Accounted for Using the Equity	3	(1.257.100)	(621.196)
Method Adjustments for Losses Tax Expense	26	4.001.849	12.768.417
Adjustments for (Gains)/LossesDisposal of Non-Current Assets		(41.395)	68.766
Adjustments for (Gains)/Losses Arising From Sale of Tangible Assets	*12*	*(41.395)*	*68.766*
Changes in Working Capital		**(150.444.443)**	**(5.178.900)**
Adjustments for Decrease / (Increase) in Trade Accounts Receivable		25.238.701	(81.870.266)
Decrease (Increase) in Trade Accounts Receivables from Related Parties	*28*	*(3.750.023)*	*3.293.671*
Decrease (Increase) in Trade Accounts Receivables from Unrelated Parties Adjustments	*7*	*28.988.724*	*(85.163.937)*
for Decrease (Increase) in Other Receivables Related with Operations *Adjustments for*		(13.281.725)	4.709.533
Decrease (Increase) in Other Receivables Related with Operations from Third Parties			
Adjustments for Decrease / (Increase) in Inventories	*8-19*	*(13.281.725)*	*4.709.533*
Decrease / (Increase) in Prepaid Expenses	9 10	35.629.935	(31.768.997)
Adjustments for Decrease In Trade Accounts Payable		19.781.043	(21.768.728)
Increase (Decrease) in Trade Accounts Payables to Related Parties		(169.083.300)	102.887.762
(Decrease)/Increase in Trade Accounts Payables to Unrelated Parties	*28*	1.087.661	(19.810)
Increase (Decrease) in Payables due to Employee Benefits	*7*	*(170.170.961)*	*102.907.572*
(Decrease)/Increase in Payables Due to Ongoing Construction or Service Contracts	17	1.760.710	6.454.537
Adjustments for Decrease in Other Operating Payables	*11*	(24.679.963)	11.507.365
(Decrease) in Other Operating Payables to Unrelated Parties		(5.774.761)	(1.834.216)
(Decrease)/ Increase in Deferred Income	*8*	*(5.774.761)*	*(1.834.216)*
Other Adjustments for Other (Decrease)/ Increase in Working Capital	11	(18.512.499)	(3.784.979)
		(1.522.584)	10.289.089
Cash Flows (Used in) Generated From Operations		**(39.415.490)**	**89.358.502**
Payments Related with Provisions for Employee	17	(25.856.888)	(21.086.123)
Benefits Income Taxes Paid	26	(1.976.021)	(2.373.974)
		(67.248.399)	**65.898.405**

The accompanying notes form an integral part of these consolidated financial statements.

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

	Notes	Current Period 1 January- 31 December 2016	Previous Period 1 January- 31 December 2015
B.CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales of Property, Plant, Equipment and Intangible Assets		237.132	272.883
Proceeds from Sales of Property, Plant, Equipment	*24*	237.132	272.883
Purchase of Property, Plant, Equipment and Intangible Assets		(10.269.822)	(6.444.883)
Purchase of Property, Plant, Equipment	*12*	(4.032.778)	(3.220.454)
Purchase of Intangible Assets	*13*	(6.237.044)	(3.224.429)
Interest Received	25	1.287.919	1.054.628
Other Outflows of Cash		(1.078.725)	(560.598)
		(9.823.496)	**(5.677.970)**
C.CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from		21.791.167	115.302.999
Borrowings Interest Paid		(38.318.971)	(28.251.660)
		(16.527.804)	**87.051.339**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGES (A+B+C)		**(93.599.699)**	**147.271.774**
D. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(16.820.292)	(5.535.207)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**(110.419.991)**	**141.736.567**
E.CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5	226.061.741	84.325.174
CASH AND CASH EQUIVALENTS AT END OF PERIOD (A+B+C+D+E)		**115.641.750**	**226.061.741**

The accompanying notes form an integral part of these consolidated financial statements.

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 1 JANUARY - 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

1. ORGANIZATION AND OPERATIONS OF THE GROUP

Netaş Telekomünikasyon A.Ş. (the "Company") and its' subsidiaries (the "Group") is an incorporated company, registered in Istanbul. The Company is engaged in the manufacture and trade of telecommunication equipment, project installation services, technical support, repair and maintenance services, IT services, strategic outsourcing services, implementation activities, and associated services. The shares of the Company are quoted on the Borsa İstanbul ("BIST") since 1993. The headquarter of the Group was located at Alemdağ Caddesi No:171 Ümraniye / İstanbul and then the headquarter is registered as Yenişehir Mah. Osmanlı Bulvarı No:11 34912 Kurtköy-Pendik/İstanbul at Istanbul Trade Registry Office as of 23 July 2013.

The Group works with major clients such as Aselsan, Türk Telekom, Vodafone, Avea, and Turkish Football Association service providers, corporate and governmental institutions in Turkey, to provide communications solutions and the infrastructure needed for modern communication systems. The Company is also engaged in research and development and provides design and development services to the customers of Kapsch and Genband as well as to local customers.

Probil Bilgi İşlem Destek ve Danışmanlık San. ve Tic.A.Ş. ("Probil"), offers industrial solutions, system integration, outsourcing, support services, network solutions and consultancy services to its domestic customers. Founded in 1989, Probil also provides value added solutions to international customers in CIS region, mainly in Asia Pasific (Nepal), Kazakhstan, Azerbaijan, Algeria and Uzbekstan with strategic business partnerships like Cisco and Microsoft. Specialized in all IT services, BDH Bilişim Destek Hizmetleri San. Tic.A.Ş. ("BDH") was founded in April 2006 in order to provide consultancy, strategic outsourcing, data center and support services.
According to Board of Directors resolution as at 11 April 2012, foundation of a "Limited Liability Partnership" (Netas Telecom Limited Liability Partnership) was completed in Kazakhstan Almaty. The amount of capital which solely belongs to Netaş is 161.800 Tenge (approximately 1.100 American USD). Registration was made on 25 June 2012 and it will be valid starting from 4 July 2012.
As at 28 November 2013, an agreement is signed between Kron Telekomünikasyon Hizmetleri A.Ş.' nin ("KRONT") and the Company for the acquisition of 10 % of A group shares from Lütfi Yenel for TL 1.700.000.
The Company has established organization (Netas Telecommunications Malta Ltd.) in Maltha and which hold all of share capital (100%) has belong to the Company which is amounted 1.200 EUR. Registiration processes are completed in date of 4 November 2014.

The Group's ultimate partner and the controlling shareholders are OEP Turkey Tech B.V. and Türk Silahlı Kuvvetleri Güçlendirme Vakfı respectively.

The average number of personnel employed in the Group as of 31 December 2016 is 2.050 white-collar (31 December 2015: 2.204), and the Group has no blue-collar employees (31 December 2015: None).

Approval of Consolidated Financial Statements

The consolidated financial statements as at and for the year ended December 31, 2016 have been approved for issue by the Board of Directors March 1, 2017. General Assembly has power to change Group's consolidated financial statements.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of Presentation

a) Statement of Compliance

The Company maintains its books of account in accordance with accounting principles set by Turkish Commercial Code ("TCC") and tax legislation. The subsidiaries in foreign countries prepares their accounting and financial tables in their currency and according to the laws and regulations of their countries. The consolidated financial statements and disclosures have been prepared in accordance with the communique numbered II-14,1 "Communique on the Principles of Financial Reporting in Capital Markets" ("the Communique") announced by the Capital Markets Board (CMB) (hereinafter will be referred to as "the CMB Accounting Standards") on 13 June 2013 which is published on Official Gazette numbered 28676. The accompanying consolidated financial statements and disclosures are presented in accordance with the formats and by including the compulsory information announced by the CMB dated 7 June 2013.
2016 TAS Taxonomy, which is prepared in accordance with paragraph 9(b) of Decree Law No.660 to enable users to analyze TAS financial statements in an Extensible. Business Reporting Language "XBRL" format, was approved upon the Board's decision no.30 as at June 2nd, 2016. 2016 TAS Taxonomy is taken into account in the accompanying consolidated financial statements.

b) Konsolidasyona İlişkin Esaslar

The details of the Company's subsidiaries as of 31 December 2016 are as follows:

	Place of establishment of operation	Group's shares in capital and voting rights	Main operating activity
Probil Bilgi İşlem Destek ve installment and network solution	Turkey	%100	Consultancy of project
BDH Bilişim Destek Hizmetleri	Turkey	100%	Technical support and maintenance services
Netaş Telecom Limited Liability	Republic ofKazakhstan	100%	Consultancy of project installment, design and technical suppor services Partnership
Netaş Telecommunications Malta Ltd.	Malta	100%	Supply of telecomunication equipment

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

b) Basis of presentation of consolidated financial statements (cont'd):

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2.1 Basis of Presentation (cont'd)b) Konsolidasyona İlişkin Esaslar (devamı)

b) Basis of presentation of consolidated financial statements (cont'd)

As of 31 December 2016 and 2015 the details of associate of the Group is given below:

Alınan iştirakler

Kron Telekomünikasyon Hizmetleri A.Ş.

Main operating activity	Acquisition date	Acquired share of capital	Acquisition amount
Information technology	28 November 2013	%10	1.700.000

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or a joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or a joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of TAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with TAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with TAS 36 to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.1 Basis of Presentation (cont'd)

b) Basis of presentation of consolidated financial statements (cont'd):

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with TAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

c) Functional Currency and Reporting Currency

US Dollar (US $) is the currency that the Group's operations are denominated and has a significant impact on the Group's operations. US $ reflects the economic basis of events and situations that are important to the Group. In accordance with the analysis done by the Group's management and current economical and operational conditions, the management has concluded that US $ is the functional currency and TL is the reporting currency of the Group in accordance with Turkish Accounting Standard ("TAS") No:21 - The Effects of Changes in Foreign Exchange Rates ("TAS 21").

For the purpose of the preparation of the consolidated financial statements and the notes in accordance with TAS 21, monetary balance sheet items in the statutory standalone financial statements of the Group are translated to US $ by using rates as at the balance sheet date. Consequently, non-monetary balance sheet items, income, expenses and cash flows are translated to US $ by using rates at the date of transactions (historical rates). Translation gain or losses that are generated from the translation of foreign currency based transactions are recognized in the consolidated statement of profit or loss as net foreign exchange gain or loss.

On 17 March 2005, CMB has announced that the Turkey is no longer hyperinflationary economy and Financial Reporting under Hyperinflationary Economy is not applicable effective from 1 January 2005. Accordingly in the accompanying consolidated financial statements TL is treated as a currency for non-hyperinflationary economy. For the purpose of presentation of the USD financial statements in TL (as explained in the paragraph above), balance sheet (except for some equity accounts) have been translated to TL by using USD rate as of 31 December 2016 (Turkish Central Bank USD Buying rate: 1 USD: 3,5192 TL), statements of income and statements of cash flows have been translated to TL by using twelve months average exchange rate (1 USD: 3,0232 TL) for the period ended 31 December 2016 (for the period ended 31 December 2015 1 USD: 2,72TL) in accordance with TAS 21. In the accompanying consolidated financial statements capital and legal reserves are carried with their values in statutory accounts.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2.1 Basis of Presentation (cont'd)

c) Functional Currency and Reporting Currency (cont'd)

Translation differences for capital and legal reserves due to preparation of the financial statements in accordance with TAS are presented as currency translation reserves and retained earnings respectively in the accompanying consolidated financial statements. Comparative consolidated financial statements are translated by using USD rates as of 31 December 2015 (31 December 2015 1 USD: 2,9076 TL).

2.2 Comparative Information and Restatement of Prior Period Consolidated Financial Statements

Group's consolidated financial statements have been prepared comparatively with the prior period for allow the determination of financial position and performance trend. Comparative information is reclassified when necessary and important differences are explained, in order to conform to the current period financial statement's presentation.

As of 31 December 2015, the Group presented Group's share in Kron total comprehensive income amounting to TL 624.581 under "Income from Investment Activities". In the current year, the Group's management has been classified these amounts under "Income from Associates". As of 31 December 2015, the Group presented bank and current interest income amounting to TL 1.054.628 under "Other Income from Operating Activities". In the current year, the Group's management has been classified these amounts under "Financial Income". As of 31 December 2015, the Group presented gain from scrap sales amounting to TL 9.845 under "Other Income from Operating Activities". In the current year, the Group's management has been classified these amounts under "Income from Investment Activities". As of 31 December 2015, the Group presented business advances amounting to TL 179.711 under "Short Term Prepaid Expenses". In the current year, the Group's management has been classified these amounts under "Other Current Assets". As of 31 December 2015, the Group presented deposits and guarantees given amounting to TL 145.962 under "Other Receivables" in current assets. In the current period, the Group's management has been classified these amounts under from "Other Receivables" in current assets to "Other Receivables" in non-current assets. As of 31 December 2015, the Group presented currency translation reserves amounting to TL 30.255.788 under "Retained Earnings". In the current period, the Group's management has been classified these amounts under from "Retained Earnings" in to "Other comprehensive income or expenses that will not be reclassified subsequently to profit of loss".

2.3 Change in Accounting Policies

Significant changes in accounting policies are applied retrospectively and prior period financial statements are adjusted accordingly. There are not any changes in accounting policies in the current year. Applied accounting standards are consistent with previous periods.

2.4 Change in Accounting Estimates and Errors

Any error is applied retroactively and the financial statements for the prior years are adjusted accordingly. If changes in accounting policies are for only one period, changes are applied on the current year but if the changes affect the future periods, changes are applied both on the current period and future periods prospectively.

2.5 Summary of Significant Accounting Policies

2.5.1 Revenue

Revenue is recognized when the Group transfers the risk of loss and ownership; deliver the products and services to the buyer.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.1 Revenue (cont'd)

In general, the Group recognizes revenue from the sale of goods and equipment when persuasive evidence of an arrangement with its customer exists, delivery occurs, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. The Group defers revenue and associated costs until to deliver all contractual obligations. Deferred revenues and cost are presented on the face of balance sheet under "Short and Long Term Deferred Revenues" and "Short and Long Term Deferred Costs" accounts

TAS 11- Construction Accounting ("TAS11") defines a construction contract, as contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose of use. For revenues generated from construction contracts, the Group applies the percentage of completion method of accounting in application of the above principles, provided certain specified conditions are met, based either on the achievement of contractually defined milestones or on costs incurred compared with total estimated costs. Any probable construction contract losses are recognized immediately in costs of sales. If uncertainty exists relating to customer acceptance, or the contract's duration is relatively short, revenues are recognized only to the extent of costs incurred that are recoverable, or on completion of the contract.

The Group records the revenue according to the percentage of completion for the projects that includes product that includes software which is more than incidental to the product as a whole.

The revenues from software licenses are recorded separately from the revenues from services as the agreement criteria like market value can be determined by the Group. If these criteria cannot be provided, the revenues are deferred and recognized when the service is completed.

The revenues related to the agreements of projects with hardware with minimal engineering and related services, training or consulting are recorded when the service is given or the goods are delivered.

Maintenance revenues including post contract support are deferred during the service and recorded as income when the service is rendered.

Advance payments received on construction contracts, before corresponding works had been carried out, are booked in "Order Advances" account group under "Advances Received". Costs incurred to date, adjusted by profits and losses recognized and progress billings, is determined on a contract by contract basis. If the amount is positive it is included as asset under "unbilled receivables" under "Trade receivables" group.

For revenues generated from licensing, selling or otherwise marketing software solution, the Group recognizes revenue generally upon delivery of the software and on the related services as and when they are performed, in application of the principles described in the first paragraph. For arrangements to sell software licenses with services, software license revenue is recognized separately from the related service revenue, provided that the transaction adheres to certain criteria, such as the existence of sufficient vendor-specific objective evidence of fair value to permit allocation of the revenue to the various elements of the arrangement. If the arrangement does not meet the specified criteria, revenue is deferred and recognized ratably over the service period. For arrangements to sell services only, revenue from training or consulting services is recognized when the services are rendered.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.2 Inventories

Inventories are stated at the lower of cost and net realizable value and valued on monthly weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of income/(loss) in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

2.5.3 Plant, Property and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.4 Intangible Assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5 years).

Costs associated with developing or maintaining computer software program are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives.

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship.

2.5.5 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.5 Impairment of tangible and intangible assets other than goodwill (cont'd)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.5.6 Borrowing Costs

Interest expenses directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recorded in the income statement in the period in which they are incurred.

2.5.7 Financial Instruments

Financial Assets

Financial assets are recognized on a trade-date basis and are initially measured at fair value.
At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity are measured at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts.
Financial assets other than held-to-maturity debt securities are classified as either held for trading or available-for-sale and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, any gains and losses arising from measurement are recognized in the statements of income. For available-for-sale assets, any gains and losses arising from the measurement are recognized in the shareholders' equity. Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Market value is the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.7 Financial Instruments (cont'd)

Financial Assets (Cont'd)

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented her in may not necessarily be indicative of the amounts the Group could realize in a current market exchange. The fair values of certain financial assets carried at cost are considered to be representative of carrying values due to their short-term nature. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate fair value. Cash and cash equivalents: Cash and cash equivalents comprise cash on hand and bank deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Spot loans bearing no interest are shown under cash and cash equivalents. The carrying amount of these assets approximates their fair value.

Trade and other receivables: Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The Group estimates that the carrying amount of trade and other receivables approximates their fair value.

Trade and other payables: Trade and other payables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. The Group estimates that the carrying amount of trade and other payables approximates their fair value.

Due to/from related parties: The carrying value of due to and due from related parties are estimated to be their fair value. The details of the receivables from Nortel group companies prior to 14 January 2009 included in trade receivables as of 31 December 2016, where the Group can estimate the recoverability, are provided in the financial statement Note 7.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.7 Financial Instruments (cont'd)

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

The Group uses financial instruments, such as letter of credits, which have off balance sheet risks for its operations. The possible loss from these instruments to the Group is equal to the amount on the instruments contracts.

Financial liabilities

Financial liabilities are initially measured at fair value. Financial liabilities other than fair value through profit or loss are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.7 Financial Instruments (cont'd)

Credit Risk

The Group's credit risk is primarily dependent upon its trade receivables and exposures to the banks. The amounts presented in the balance sheet are net of allowances for doubtful receivables, (except for the amounts due from Nortel companies prior to 14 January 2009, where the Group has made a provision against the pre-filing receivables from Nortel as the Group is able to estimate the recoverability due to predictable as at the balance sheet date - see note 7) estimated by the Group's management based on prior experience and the current economic environment. Thus, The Group does not anticipate any risks relevant to the trade receivables except allowances for doubtful receivables. The Group assigns credit limits to its customer and exposures to the customers do not exceed these limits. The Group has significant exposures to the banks. The Group also assigns credit limits to the banks. Treasury and Control department monitors and controls exposures to the banks in order to ensure that the exposures are within the assigned limits.

Foreign Currency Risk

Due to its core business, the Group is subject to exchange rate volatility tied to the value change of foreign currencies. The Group's foreign currency risk for assets and liabilities has been disclosed in Note 30.

Liquidity Risk

The Group is generally raising funds by liquidating its short-term financial instruments such as collecting its receivables and selling out securities. The Group's proceedings from these instruments generally approximate their fair values.

2.5.8 Business combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5. Business combinations (cont'd)

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with TAS 12 Income Taxes and TAS 19 Employee Benefits respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with TFRS 2 Share-based Payment at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquire's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another TAS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.8 Business combinations (cont'd)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.5.9 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

2.5.10 The Effects of Change in Foreign Exchange Rates

The effects of change in foreign exchange rates on the financial statements have been disclosed in note 2 "Basis of Financial Statements" section 2.1.c "Functional and Reporting Currency". For the purpose of presentation of the consolidated financial statements as TL, balance sheet has been translated to TL by using Turkish Central Bank foreign exchange buying rates as of 31 December 2016 (1 US $ = 3,5192 TL , 1EUR = 3,7099 TL , 1 CAD = 2,6066 TL, 1 GBP = 4,3189 TL and 1 BDT = 0,0438 TL).

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.11 Earnings per Share

Earnings per share disclosed in the accompanying consolidated statement of income is determined by dividing net income by the weighted average number of shares in existence during the year concerned.

In Turkey, companies can raise their share capital by distributing "Bonus Shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation

2.5.12 Subsequent Events

Events after the reporting period are those events that occur between the balance sheet date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or public disclosure of other selected financial information. The Group adjusts the amounts recognized in its financial statements if adjusting events occur after the balance sheet date.

2.5.13 Provisions, Contingent Liabilities and Assets

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.5.14 Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the Group. All other leases are classified as operational lease. Lease payments for operational lease are recognized in the statement of income during the life of the contract.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 2.5 Summary of Significant Accounting Policies (cont'd)

2.5.15 Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;(ii) raporlayan işletme üzerinde önemli etkiye sahip olması durumunda,

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) İşletmenin, diğer işletmenin (veya diğer işletmenin de üyesi olduğu bir grubun üyesinin) iştiraki ya da iş ortaklığı olması halinde.

(iii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.16 Reporting of Financial Information on Segment Basis

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group evaluates the performance of five segments to decide resource allocation. The segments of the Group are system enterprise, public, international, technology and BDH.

2.5.17 Government Grants and Incentives

All government grants, including non-monetary government grants are recognized in the financial statements with their fair values, if the Group provides sufficient assurance that the requirements for such grants will be fulfilled.

Government grants are presented in the consolidated financial statements regardless of whether the grants are obtained in cash or by decreasing a liability to the government. Government grants are presented in Note 14.

2.5.18 Taxation and Deferred Tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Tax expense form continues operation includes current year income tax expense and deferred income tax (expense) / benefit.

Current tax

Current year income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.18 Taxation and Deferred Tax (cont'd)

Deferred tax (cont'd)

EDeferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that expected to apply to the period when asset is realized or the liability is settled.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.19 Employee Benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per Turkish Accounting Standard No. 19 (revised) "Employee Benefits" ("TAS 19").

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Retirement Plans

Grup, detayları Not 17'de belirtildiği gibi, 15 yıl ve daha fazla hizmet etmiş çalışanlarına özel emeklilik ikramiyesi ödemektedir. Grup'un ileride ödenmesi muhtemel özel emeklilik ikramiyesi yükümlülüklerinin hesaplanmasında kullanılan aktüeryal varsayımlar Not 17'de belirtilmiştir.

2.5.20 Statements of Cash Flows

In statement of cash flows, cash flows are classified according to operating, investing and financing activities.

2.5.21 Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

2.5.22 Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. KONSOLİDE FİNANSAL TABLOLARIN SUNUMUNA İLİŞKİN ESASLAR (devamı)

2.5 Summary of Significant Accounting Policies (cont'd)

2.5.22 Determination of Fair Values (cont'd)

(a) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(b) Intangible assets

The fair value of intangible assets recognized as a result of a business combination is based on market values. The market value of intangible assets is the estimated amount for which an intangible could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair values of other intangible assets are carried at cost and are considered to approximate its respective carrying amount.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Trade and Other Receivables/Due From Related Parties

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purpose.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of trade and other payables is carried out at cost and is considered to approximate its respective carrying amount.

2.6 Accounting Estimates and Assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.6 Accounting Estimates and Assumptions (cont'd)

In particular, information about significant areas at estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements is included in the following notes:

Not 7 Trade receivables and payables: Estimations and accounting judgments regarding to collectability of receivables
Not 9 Inventories: Estimations regarding to inventory provision
Not 12,13 Tangible and intangible assets: Estimations regarding to useful lives
Not 13 Goodwill: Estimations regarding to impairment of goodwill
Not 15 Provisions: Estimations regarding to provision amounts
Not 21 Revenue and cost of sales: Estimation of revenue and cost based on project based analysis
Not 26 Tax Assets and liabilities: Estimations regarding to recoverability of deferred tax assets
Not 30 Financial instruments and risk management: Estimations and accounting judgments regarding to collectability of receivables

On 24 January 2017, the final revised plan is presented to Nortel Networks Inc., Delaware Region High Court of Justice about the payments which will be made to debtors as part of protection from the bankruptcy. According to this plan, Nortel Networks Inc. predicted that payments can be made from sales of different assets that belong to Nortel with the total estimated unsecured receivables between the range of 55,1%-61,2%. As per the plan issued above, the Company management booked 45 % provision for Nortel receivables in the accompanying consolidated financial statements.

2.7 New and Revised Turkish Accounting Standards

a) Amendments to TAS affecting amounts reported and disclosures in the consolidated financial statements

None.

b) New and Revised TAS applied in with no material effect on the consolidated financial statements

Amendments to TAS 16 and TAS 38	*Clarification of Acceptable Methods of Depreciation and Amortization* [1]
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	*Agriculture: Bearer Plants*[1]
Amendments to TFRS 11 and TFRS 1	*Accounting for Acquisition of Interests in Joint operations* [1]
Annual Improvements to 2011-2013 Cycle TFRS 1 2	
Amendments to TAS 1	*Disclosure Initiative* [2]
Annual Improvements to 2012-2014 Cycle	*TFRS 5, TFRS 7, TAS 34, TAS 19* [2]
Amendments to TAS 27	*Equity Method in Separate Financial Statements* [2]
Amendments to TFRS 10 and TAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [2]
Amendments to TFRS 10, TFRS 12 and TAS 28	*Investment Entities: Applying the Consolidation Exception* [2]
TFRS 14	Regulatory Deferral Accounts [2]

[1] Effective for annual periods beginning on or after 31 December 2015.

[2] Effective for annual periods beginning on or after 1 January 2016.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards(Cont'd)

b) New and Revised TAS applied in with no material effect on the consolidated financial statements (Cont'd)

Amendments to TAS 16 and TAS 38 Clarification of Acceptable Methods of Depreciation and Amortization(Cont'd)

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 Agriculture: Bearer Plants

This amendment include 'bearer plants' within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

Amendments to TFRS 11 and TFRS 1 Accounting for Acquisition of Interests in Joint operations

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

Annual Improvements 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only)

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2.BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards (Cont'd)

b) New and Revised TAS applied in with no material effect on the consolidated financial statements (Cont'd)

Amendments to TAS 1 Disclosure Initiative

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Annual Improvements 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

TMS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference. Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

Amendments to TAS 27 Equity Method in Separate Financial Statements

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Amendments to TFRS 10 and TAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards (Cont'd)

b) New and Revised TAS applied in with no material effect on the consolidated financial statements (Cont'd)

Amendments to TFRS 10, TFRS 12 and TAS 28 Investment Entities: Applying the Consolidation Exception

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

TFRS 14 Regulatory Deferral Accounts

TFRS 14 Regulatory Deferral Accounts permits an entity, which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

c) New and Revised TAS in issue but not yet effective

The Group has not applied the following new and revised TAS that have been issued but are not yet effective:

TFRS 9 *Financial Instruments* [1]
TFRS 15 *Revenue from Contracts with Customers* [1]
[1]Effective for annual periods beginning on or after 1 January 2018.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2.7 New and Revised Turkish Accounting Standards(Cont'd)

(c) New and Revised TAS in issue but not yet effective (Cont'd)

TFRS 9 Financial Instruments

TFRS 9, issued by Public Oversight Authority ("POA") in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition. Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments. TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

TFRS 15 *Revenue from Contracts with Customers*

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognize revenue when the entity satisfies a performance obligation.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

3.SHARES IN ASSOCIATES

Associates

Details of important associates

As of 31 December 2016, the details of important associates are as in the following;

	Main operating activity	Acquisition date	Acquired share of capital	Acquisition amount
Kron Telekomünikasyon Hizmetleri A.Ş.	Information technology	28 November	%10	1.700.00

On 28 November 2013, the Company made a new investment and came to an agreement on acquisition of 10% of the shares of Kron Telekomünikasyon Hizmetleri A.Ş. for TL 1.700.000. Furthermore, the Company acquired the right to be represented with 3 members in the Board of Directors at Kron and to be active in taking strategic growth decisions of the company.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

SHARES IN ASSOCIATES (cont'd)

Associates (cont'd)

Goodwill arises from the acquisition of Kron Telekomünikasyon Hizmetleri A.Ş. Additionally; the cost includes synergy, the benefits arising from the rising market share and also the labor force of Kron Telekomünikasyon Hizmetleri A.Ş. As these benefits are not separable, they are not recognized in the accompanying consolidated financial statements.

Goodwill

	Kron Telekomünikasyon Hizmetleri A.Ş.
Amount transferred	1.700.000
Fair value of the net assets of the acquired company	(1.098.805)
Goodwill	601.195

The summary of the financial information of Kron Telekomünikasyon Hiz. A.Ş. is explained below. This financial information is prepared according to TAS.

	31 December 2016	31 December 2015
Current assets	31.660.181	18.060.465
Non-current assets	11.041.678	9.131.425
Short term liabilities	9.541.266	6.627.093
Long term liabilities	587.370	562.570
Net assets	32.573.223	20.002.227
Share of the Group in net assets	3.257.322	2.000.223

	1 January 2016 -31 December 2016	1 January 2015 -31 December 2015
Net profit	12.546.506	6.216.280
Other comprehensive income	24.490	29.530
Total comprehensive income	12.570.996	6.245.810
Share of the Group in total comprehensive income	1.257.100	624.581

The movement of acquisition balance arising from Kron Telekomünikasyon Hizmetleri A.Ş. is given below;

	31 December 2016	31 December2015
As of 1 January	2.601.418	1.980.222
Share from the profit of the year	1.257.100	624.581
Currency translation reserves As of 31 December	1.263.309	(3.385)
	5.121.827	2.601.418

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

4. SEGMENT REPORTING

The Group evaluates the performance of five segments to decide resource allocation. The following table shows the information about each segment. The operational profit and details below should be considered together in evaluating the performance of segments. aşağıdaki kırılımlar ile birlikte faaliyet karları dikkate alınmaktadır:

For the period ended 31 December 2016	Enterprise	Public	International	Technology	BDH	Unallocated (*)	Total
Revenue	412.053.381	382.026.152	68.117.779	72.995.412	34.650.700	-	969.843.424
Cost of sales (-)	(362.107.239)	(323.136.487)	(54.257.137)	(69.778.349)	(17.984.079)	(8.156.352)	(835.419.643)
Gross margin	**49.946.142**	**58.889.665**	**13.860.642**	**3.217.063**	**16.666.621**	**(8.156.352)**	**134.423.781**
Sales,marketing and distribution expenses (-) General administrative expenses (-) Research and development expenses (-)	(21.234.200)	(14.336.922)	(8.835.695)	-	-	-	(44.406.817)
	-	-	-	-	-	(24.402.568)	(24.402.568)
	-	-	-	-	-	-	-
Operating profit / (loss) of segment	**28.711.942**	**44.552.743**	**5.024.947**	**3.217.063**	**16.666.621**	**(32.558.920)**	**65.614.396**

For the period ended 31 December 2015	Enterprise	Public	International	Technology	BDH	Unallocated (*)	Total
Revenue	485.673.470	302.382.758	115.750.722	76.538.488	28.647.659	-	1.008.993.097
Cost of sales (-)	(438.490.845)	(269.515.993)	(82.053.730)	(71.340.214)	(27.621.876)	(6.067.606)	(895.090.264)
Gross margin	**47.182.625**	**32.866.765**	**33.696.992**	**5.198.274**	**1.025.783**	**(6.067.606)**	**113.902.833**
Sales,marketing and distribution expenses (-)	(19.674.196)	(14.780.123)	(8.134.403)	-	-	-	(42.588.722)
General administrative expenses (-)	-	-	-	-	-	(23.844.072)	(23.844.072)
Research and development expenses (-)	-	-	-	(3.968.273)	-	-	(3.968.273)
Operating profit / (loss) of segment	**27.508.429**	**18.086.642**	**25.562.589**	**1.230.001**	**1.025.783**	**(29.911.678)**	**43.501.766**

(*) Unallocated costs of sales are shown as amortization, rent and general expenses etc., and they are not directly allocated to the segments.

4.SEGMENT REPORTING (cont'd)

31 December 2016	Enterprise	Public	International	Technology	BDH	Unallocated(*)	Total
Trade receivables	156.937.166	509.884.822	33.138.229	1.264.208	11.111.765	47.142.348	759.478.538
Due from related parties	-	-	-	26.807.040	-	-	26.807.040
Inventories	20.962.054	59.394.500	3.071.685	29.667	-	533.118	83.991.024
Deferred costs	60.791.329	48.432.391	10.504.269	10.252.337	13.506.922	5.197.350	148.684.598
Segments assets	**238.690.549**	**617.711.713**	**46.714.183**	**38.353.252**	**24.618.687**	**52.872.816**	**1.018.961.200**
Trade payables (*)	133.657.399	56.366.881	17.544.935	191.641	11.588.128	21.740.174	241.089.158
Due to related parties	-	-	-	1.321.109	-	-	1.321.109
Deferred revenues	41.960.634	17.914.709	24.305	-	-	15.089	59.914.737
Advances received	14.408.469	61.432.413	2.371.262	-	130	-	78.212.274
Segment liabilities	**190.026.502**	**135.714.003**	**19.940.502**	**1.512.750**	**11.588.258**	**21.755.263**	**380.537.278**

31 December 2015	Enterprise	Public	International	Technology	BDH	Unallocated(*)	Total
Trade receivables	179.315.387	346.456.702	89.979.032	599.050	5.626.981	65.193.530	687.170.682
Due from related parties	-	-	-	18.541.627	-	-	18.541.627
Inventories	22.470.332	76.267.437	3.789.681	-	-	489.075	103.016.525
Deferred costs	31.289.755	66.078.132	1.740.630	-	-	-	99.108.517
Segments assets	**233.075.474**	**488.802.271**	**95.509.343**	**19.140.677**	**5.626.981**	**65.682.605**	**907.837.351**
Trade payables (*)	113.524.825	167.329.182	45.447.227	201.574	5.485.100	30.866.513	362.854.421
Due to related parties	-	-	-	45.443	-	-	45.443
Deferred revenues	44.822.619	12.709.886	9.421.140	-	-	353.165	67.306.810
Advances received	763.316	65.802.855	95.108	-	116.877	-	66.778.156
Segmentliabilities	**159.110.760**	**245.841.923**	**54.963.475**	**247.017**	**5.601.977**	**31.219.678**	**496.984.830**

(*) Unallocated trade payables are shown as rent, insurance, consultancy and etc. The uncollated amount of trade receivable and trade payables are related to Nortel companies under bankruptcy protection as of 31 December 2016 and 2015.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

4. SEGMENT REPORTING (cont'd)

Reconciliation of profit before tax, assets, liabilities and other material items:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Operating profit of segment	65.614.396	43.501.766
Other income/(expenses) from operating activities	(45.879.306)	(19.157.268)
(net) Other income/(expenses) from investments (net)	41.395	(68.766)
Income from associates	1.257.100	624.581
Finance income/(expenses) (net)	1.638.275	22.173.179
Profit before tax	**22.671.860**	**47.073.492**

Assets	**31 December 2016**	**31 December 2015**
Segment assets	1.018.961.200	907.837.351
Other assets	356.525.692	444.777.805
Total assets	**1.375.486.892**	**1.352.615.156**

Liabilities	**31 December 2016**	**31 December 2015**
Segment liabilities	380.537.278	496.984.830
Other liabilities	445.253.737	418.429.429
Total liabilities	**825.791.015**	**915.414.259**

5. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Bank- demand deposits	19.199.752	38.598.503
Bank- time deposits	95.947.358	187.084.434
Other cash and cash equivalents (*)	494.640	378.804
	115.641.750	**226.061.741**

Currency	Original Currency Amount	Interest Rate %	Maturity	31 December 2016
US$	22.269.675	0,20-2,50	September 17-January	78.371.441
EURO	996.231	0,01-0,10	17 January 17	3.695.917
TL	13.880.000	6,00-7,00	January 17	13.880.000
				95.947.358

Currency	Original Currency Amount	Interest Rate %	Maturity	31 December 2015
US$	51.285.090	0,25-2,90	January 16	149.116.529
EURO	822.245	2,75	January 16	2.612.767
TL	35.355.138	7,50-13,90	January 16	35.355.138
				187.084.434

The credit risk, foreign currency and sensitivity risks of financial assets and liabilities are disclosed in Note 30. As of 31 December 2016 and 2015, there are no restriction / blockage on bank accounts.
(*) Other cash and cash equivalents are consisted of credit card receivables.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

6. FINANCIAL LIABILITIES

Short term financial liabilities	31 December 2016	31 December 2015
Short term unsecured loans	354.858.764	329.886.371
Non interest bearing unsecured spot loans	688	3.181.914
	354.859.452	**333.068.285**

As of 31 December 2016, the average interest rate for TL loans is 11,53 % and USD loans is 3,47 % (2015: average interest rate for TL loans is 13,40 % and average interest rate for USD loans is 3,13%).

The details of loans of the Group are given below;

Currency	Original currency amount	Effective interest rate %	Maturity	31 December 2016
US$	20.044.444	Libor+% 1,25-4,00	October 17	70.540.407
TL	284.318.357	10,85-12,40	February 17- May 17	284.318.357
				354.858.764

Currency	Original currency amount	Effective interest rate %	Maturity	31 December 2015
US$	20.103.125	3,00-3,25	October 16-November 16	58.451.846
TL	271.434.525	12,45-14,50	February 16- October 16	271.434.525
				329.8 86.371

The Group has no collaterals given for bank loans as of 31 December 2016 and 2015.

7. TRADE RECEIVABLES AND PAYABLES

Trade Receivables from Third Parties	31 December 2016	31 December 2015
Trade receivables	361.758.207	405.517.617
Unbilled receivables	338.562.364	192.680.792
Notes receivables	721.018	553.318
Discount on trade receivables (*)	(404.060)	-
Allowance for doubtful receivables	(29.733.577)	(21.060.373)
	670.903.952	**577.691.354**

Movement of allowance for doubtful receivables	31 December 2016	31 December 2015
As of 1 January	(21.060.373)	(14.255.324)
Charge for the period	(3.263.966)	(4.302.925)
Provision reversal	336.201	578.356
Currency translation differences	(5.745.439)	(3.080.480)
As of 31 December	**(29.733.577)**	**(21.060.373)**

No guarantee has been obtained for trade receivables.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

7. TRADE RECEIVABLES AND PAYABLES (cont'd)

Long Term Trade Receivables from Third Parties	31 December 2016	31 December 2015
Receivables from Nortel companies	48.222.475	49.638.506
Other trade receivables	69.840.757	68.778.654
Provision amount for Nortel companies	(21.700.114)	-
Discount on trade receivables(*)	(7.788.532)	(8.937.832)
	88.574.586	**109.479.328**

(*) As of 31 December 2016, Group will collect its trade receivable in every year by equal payment; total amount is USD 22.916.748 based on the agreement, and its maturity date spreads 6 years. Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

Trade Payables to Third Parties	31 December 2016	31 December 2015
Trade payables	238.732.272	347.705.986
Other trade payables	411.158	2.366.546
	239.143.430	**350.072.532**

Long Term Trade Payables to Third Parties	31 Aralık 2016	31 Aralık 2015
Trade payables to Nortel companies	17.276	9.806.654
Other trade payables	1.928.452	2.975.235
	1.945.728	**12.781.889**

Nortel Networks Corporation, the ultimate parent of Nortel Networks International Finance and Holding B.V. ("NNIFH"), which was shareholder of the Company until 22 December 2010, holding 53,13 % of the share capital of the Company, has announced that it, Nortel Networks Limited, which is another indirect parent of the Company, and certain of its other Canadian subsidiaries have obtained an Order from the Ontario Superior Court of Justice (the "Canadian Court") for creditor protection under the Companies' Creditors Arrangement Act ("CCAA") in Canada filed as of January 14, 2009. Under the terms of the Order, Ernst & Young Inc. serves as the Court-appointed Monitor under the CCAA process and assists the Company in formulating its restructuring plan.

Nortel Networks Corporation's certain subsidiaries (Alteon Websystems International Inc., XROS Inc., Sonoma Systems, CoreTek Inc.) by Nortel Network Inc. and its' subsidiaries (QTERA Corporation, Nortel Networks Optical Components Inc., Nortel Networks Capital Corporation, Nortel Networks International Inc., Northern Telecom International Inc., Nortel Networks Cable Solutions, Inc.) also have made similar filings in the United States under Chapter 11 of the U.S: Bankruptcy Code. The Company offset its payables to Nortel Group Companies by USD 277.820, and made CAD 5.282.370 of payment to Nortel Networks Limited as at 24 April 2013.

On 24 January 2017, the final revised plan is presented to Nortel Networks Inc., Delaware Region High Court of Justice about the payments which will be made to debtors as part of protection from the bankruptcy. According to this plan, Nortel Networks Inc. predicted that payments can be made from sales of different assets that belong to Nortel with the total estimated unsecured receivables between the range of 55,1%-61,2%. In the frame of this plan, Group has net-off Nortel Companies' trade receivables and payables. Group management decided to finalize uncertainty of collections, and book a provision of 45% against for Nortel receivables on a net basis.

7. TRADE RECEIVABLES AND PAYABLES (cont'd)

The details of trade receivables and payables of the Company to and from Nortel companies under bankruptcy protection as of 31 December 2016 and the bankruptcy protection filing date of 14 January 2009 are given below:

			14 January 2009			31 December 2016				31 December 2015	
Country	Company	Trade Receivables	Trade Payables	Net Balance	Trade Receivables	Trade Payables	Provision Amount	Net Balance	Trade Receivables	Trade Payables	Net Balance
USA	Nortel Networks Inc.	50.189.328	(8.796.063)	41.393.265	57.629.551	(11.768.262)	(20.637.580)	25.223.709	47.614.139	(9.719.208)	37.894.931
Ireland	Nortel Networks (Ireland)	1.710.099	-	1.710.099	1.710.099	-	(769.545)	940.554	1.412.902	-	1.412.902
Canada	Nortel Networks Technology Corporation	400.836	(54.281)	346.555	-	-	-	-	-	-	-
Egypt	Nortel Networks Inc. (Egypt Branch)	304.765	-	304.765	308.847	-	(138.981)	169.866	255.174	-	255.174
Europe	Nortel Networks N.V.	157.608	-	157.608	157.608	-	(70.924)	86.684	130.217	-	130.217
India	Nortel Networks (India) Private	48.343	-	48.343	30.087	-	(13.539)	16.548	27.800	-	27.800
Holland	Nortel Networks BV. Nortel	95.456	-	95.456	-	-	-	-	-	-	-
Italy	Networks S.p.A.	23.637	-	23.637	23.637	-	(10.636)	13.001	19.530	-	19.530
		52.930.072	**(8.850.344)**	**44.079.728**	**59.859.829**	**(11.768.262)**	**(21.641.205)**	**26.450.362**	**49.459.762**	**(9.719.208)**	**39.740.554**
Mexico	Nortel de México, S. de R.L. de C.V.	-	(17.274)	(17.274)	-	(17.276)	-	(17.276)	-	(14.273)	(14.273)
Germany	Nortel GmbH	-	(245.839)	(245.839)	-	-	-	-	-	-	-
France	Nortel Networks S.A.	36.248	(104.845)	(68.597)	216.338	(85.430)	(58.909)	71.999	178.744	(73.173)	105.571
Canada	Nortel Networks Limited	575.800	(1.445.930)	(870.130)	-	-	-	-	-	-	-
England	Nortel Networks UK Limited	6.161.222	(6.822.273)	(661.051)	-	-	-	-	-	-	-
Canada	Nortel Networks Limited - EMEA	-	(16.871.082)	(16.871.082)	-	-	-	-	-	-	-
Sales											
		59.703.342	**(34.357.587)**	**25.345.755**	**60.076.167**	**(11.870.968)**	**(21.700.114)**	**26.505.085**	**49.638.506**	**(9.806.654)**	**39.831.852**

The foreign currency risk and liquidity risk of short term trade receivables and payables are disclosed in Note 30.

8. OTHER RECEIVABLES AND PAYABLES

	31 December 2016	31 December 2015
Other Receivables from Third Parties		
Deposits and guarantees given	82.182	18.131
Other	429.756	232.952
	511.938	**251.083**

	31 December 2016	31 December 2015
Long Term Other Receivables from Third Parties Deposits and guarantees given	157.115	145.962
	157.115	**145.962**

	31 December 2016	31 December 2015
Other Payables to Third Parties		
Taxes and duties payable	8.505.159	12.731.107
Other	181.682	-
	8.686.841	**12.731 107**

9. INVENTORIES

	31 December 2016	31 December 2015
Raw materials	32.433.761	25.109.488
Finished goods	47.111.610	47.400.127
Trade goods	14.430.765	38.444.605
Other inventories	1.514.039	917.753
Allowance for inventory impairment	(11.499.151)	(8.855.448)
	83.991.024	**103.016.525**

Movement for allowance	31 December 2016	31 December 2015
As of 1 January	(8.855.448)	(7.213.137)
(Provision) / charge for the period	(670.927)	176.705
Foreign currency exchange differences	(1.972.776)	(1.819.016)
As of 31 December	**(11.499.151)**	**(8.855.448)**

10. PREPAID EXPENSES

	31 December 2016	31 December 2015
Short Term Prepaid Expenses		
Advances given for inventories	6.061.168	25.951.614
Short term prepaid expenses	5.879.015	4.818.986
Goods intransit	4.908.795	1.946.039
	16.848.978	**32.716.639**

	31 December 2016	31 December 2015
Long Term Prepaid Expenses		
Long term prepaid expenses	1.053.159	1.098.957
	1.053.159	**1.098.957**

11. DEVAM EDEN SÖZLEŞMELERE İLİŞKİN VARLIKLAR VE ERTELENMİŞ GELİRLER

Details of the deferred costs are given below;

Customer	31 December 2016			31 December 2015		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Telco	60.457.807	-	60.457.807	43.013.450	-	43.013.450
Enterprise	28.167.062	-	28.167.062	12.781.371	-	12.781.371
Public	19.450.515	-	19.450.515	40.398.185	-	40.398.185
Defense	1.148.337	-	1.148.337	1.174.883	-	1.174.883
International	10.504.269	-	10.504.269	1.740.629	-	1.740.629
BDH	13.506.922	-	13.506.922	-	-	-
Other	15.449.686	-	15.449.686	-	-	-
	148.684.598	-	**148.684.598**	**99.108.517**	-	**99.108.517**

Details of the deferred revenue are given below;

Customer	31 December 2016			31 December 2015		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Telco	27.783.418	-	27.783.418	8.290.394	-	8.290.394
Enterprise	20.553.250	-	20.553.250	44.796.275	-	44.796.275
Public	8.174.479	-	8.174.479	12.039.252	-	12.039.252
Defense	3.364.195	-	3.364.195	2.023.382	-	2.023.382
Other	39.395	-	39.395	157.507	-	157.507
	59.914.737	-	**59.914.737**	**67.306.810**	-	**67.306.810**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR
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. PROPERTY, PLANT AND EQUIPMENT

	Buildings,Machinery and Equipment	Vehicles	Furniture and fixtures	Leasehold Improvement	Total
Cost					
1 January 2016	**118.154.508**	**306.430**	**10.100.175**	**28.954.848**	**157.515.961**
Translation difference	21.996.232	38.640	2.204.505	6.128.420	30.367.797
Purchases	3.308.912	-	492.844	231.022	4.032.778
Disposals	(692.804)	(157.349)	-	-	(850.153)
31 December 2016	**142.766.848**	**187.721**	**12.797.524**	**35.314.290**	**191.066.383**
Accumulated Depreciation					
1 January 2016	**(102.483.023)**	**(201.174)**	**(6.123.722)**	**(8.487.958)**	**(117.295.877)**
Translation difference	(16.833.050)	(32.243)	(1.492.029)	(2.309.967)	(20.667.289)
Period charge	(9.135.860)	(6.816)	(1.250.561)	(3.197.241)	(13.590.478)
Disposals	586.221	68.195	-	-	654.416
31 December 2016	**(127.865.712)**	**(172.038)**	**(8.866.312)**	**(13.995.166)**	**(150.899.228)**
Net book value at 31 December 2016	**14.901.136**	**15.683**	**3.931.212**	**21.319.124**	**40.167.155**

As of 31 December 2016 assets have been covered by insurance worth of TL 300.740.410.

As of 31 December 2016 depreciation charge is TL13.590.478. TL 9.637.984 is accounted in cost of sales, TL 3.382.890 in general administrative expenses, TL 569.604 in sales, marketing and distribution expenses.

12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Buildings,Machinery and Equipment	Vehicles	Furniture and fixtures	Leasehold Improvement	Total
Cost					
1 January 2015	**98.602.887**	**1.108.336**	**8.032.412**	**20.280.162**	**128.023.797**
Translation difference	24.809.554	263.219	2.041.034	8.612.451	35.726.258
Purchases	2.800.198	-	-	62.235	3.220.454
Disposals	(8.058.131)	(1.065.125)	358.021 (331.292)	-	(9.454.548)
31 December 2015	**118.154.508**	**306.430**	**10.100.175**	**28.954.848**	**157.515.961**
Accumulated Depreciation					
1 January 2015	**(83.192.175)**	**(195.035)**	**(4.222.324)**	**(2.290.328)**	**(89.899.862)**
Translation difference	(18.367.699)	(46.321)	(1.127.395)	(3.345.003)	(22.886.418)
Period charge	(8.878.184)	(59.940)	(1.105.296)	(2.852.627)	(12.896.047)
Disposals	7.955.035	100.122	331.293	-	8.386.450
31 December 2015	**(102.483.023)**	**(201.174)**	**(6.123.722)**	**(8.487.958)**	**(117.295.877)**
Net book value at 31 December 2015	**15.671.485**	**105.256**	**3.976.453**	**20.466.890**	**40.220.084**

As of 31 December 2015 assets have been covered by insurance worth of TL 180.600.245.

As of 31 December 2015 depreciation charge is TL 12.896.047. TL 8.880.009 is accounted in cost of sales, TL 2.982.726 in general administrative expenses, TL 1.033.312 in sales, marketing and distribution expenses.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
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12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Tangible fixed assets are depreciated principally on a straight-line basis using the following rates, which amortize the assets over their expected useful lives:

	Depreciation rate (%)
Machinery and Equipment	10 - 50
Vehicles	20
Leasehold Improvement	20
Furniture and fixtures	10
Other	16,7

13. INTANGIBLE ASSETS

Goodwill

The shares transfer of Probil Bilgi İşlem Destek ve Danışmanlık Sanayi ve Ticaret A.Ş ("Probil") and its subsidiary BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ("BDH") to the Company was completed on 11 October 2011.

During the acquisition, fair value of the customer relations has been identified as a separable intangible asset. Further, a write-up is made on the inventory based on the mark-up margin on the inventory. The difference between the net amount transferred and the total fair value of the net assets acquired is recognized as goodwill.

Changes in goodwill between the acquisition date and the balance sheet date is presented below:

	Şerefiye TL
Goodwill calculated as of acquisition date	**33.820.858**
Currency Translation Reserves	799.105
Goodwill as of 31 December 2011 3	**4.619.963**
Currency Translation Reserves	(1.948.278)
Goodwill as of 31 December 2012	**32.671.685**
Currency Translation Reserves	6.445.996
Goodwill as of 31 December 2013	**39.117.681**
Currency Translation Reserves	3.383.369
Goodwill as of 31 December 2014 4	**2.501.050**
Currency Translation Reserves	10.789.757
Goodwill as of 31 December 2015	**53.290.807**
Currency Translation Reserves	11.209.471
Goodwill as of 31 December 2016	**64.500.278**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

13. INTANGIBLE ASSETS (cont'd)

Goodwill (Cont'd)

According to accounting policies, refer to Note 2.5.9, Group has put goodwill amount to the test of impairment.

Netas has engaged an independent assessment report to perform a valuation analysis of Probil. An independent assessment has been prepared a valuation of 100% of the share capital of Probil, based on its financial statements on a consolidated basis by applying adjusted Discounted Cash Flow ("DCF") valuation. The DCF model is based on a cash flow forecast provided by Management over the period of 1 January 2017-31 December 2021.

According to DCF method, company's estimated periodic cash flow has been reduced the present value; as a result, company's present value of future cash flow has been attained.

Weighted average cost of capital has been calculated as 9,4 %, based on USD Dollar. While calculating Probil's final term value has been based on USD Dollar long term inflation expectation report, as a result, 1,8 % final growth rate has been predicted. As of the valuation date, Probil has net debt of 41,4 million USD. Company management has not predicted any capital expenditures.

The result of DCF analysis concluded indicative firm value of Probil is nearly 89,6 million USD. As of the valuation date Probil has a net debt of 41,4 million USD, equity value of Probil with considering its net debt position is nearly 48,2 million USD.

As conclusion, an independent assessment report has been obtained, and no goodwill impairment is noted for Probil as of 31 December 2016.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

13. INTANGIBLE ASSETS (cont'd)

Other Intangible Assets

	1 January- 31 December 2016		
	Customer Relations	**Other Intangible Assets**	**Total**
Cost	**31.017.235**	**52.518.917**	**83.536.152**
1 January 2016	-	6.237.044	6.237.044
Purchases	6.524.330	12.068.835	18.593.165
Translation difference	**37.541.565**	**70.824.796**	**108.366.361**
31 December 2016			
Accumulated amortization	**(13.182.326)**	**(33.609.297)**	**(46.791.623)**
1 January 2016	(3.301.337)	(7.993.480)	(11.294.817)
Translation difference	(3.225.042)	(5.637.432)	(8.862.474)
Period charge	(19.708.705)	(47.240.209)	(66.948.914)
31 December 2016	**17.832.860**	**23.584.587**	**41.417.447**
Net book value			

As of 31 December 2016 amortization charge is TL 8.862.474. TL 5.251.500 is accounted in cost of sales, TL 3.573.057 in general administrative expenses and TL 37.917 in sales, marketing and distribution expenses.

	1 January- 31 December 2015		
	Customer Relations	**Other Intangible Assets**	**Total**
Cost			
1 January 2016	**24.737.194**	**39.137.593**	**63.874.787**
Purchases	-	3.224.429	3.224.429
Translation difference	6.280.041	10.156.895	16.436.936
31 December 2016	**31.017.235**	**52.518.917**	**83.536.152**
Accumulated amortization			
1 January 2016	**(8.039.589)**	**(22.949.111)**	**(30.988.700)**
Translation difference	(2.241.138)	(6.139.731)	(8.380.869)
Period charge	(2.901.599)	(4.520.455)	(7.422.054)
31 December 2016	(13.182.326)	(33.609.297)	(46.791.623)
Net book value	**17.834.909**	**18.909.620**	**36.744.529**

As of 31 December 2015 amortization charge is TL 7.422.054. TL 3.901.247 is accounted in cost of sales, TL 3.276.138 in general administrative expenses and TL 244.669 in sales, marketing and distribution expenses.

Intangible fixed assets are amortized principally on a straight-line basis using the following rates, which amortize the assets over their expected useful lives:

	Amortization rate (%)
Software	20
Licences	10
Customer Portfolio	

14. GOVERNMENT GRANTS

For the period ended 31 December 2016 the Group has received approved and accrued incentive from TÜBİTAK, TL 15.284.525, which is net-off with the total amount of "Research and Development Expenses", amounting to TL 12.227.338, and TL 3.057.187 is accounted under "Other Income from Operating Activities" (For the period ended 31 December 2015: TL 10.688.475 approved and accrued incentive from TÜBİTAK received, TL 207.654 is accounted under "Cost of Sales" and TL 9.480.821 is accounted under "Other Income from Operating Activities").

The Group is qualified for the incentives and exemptions provided by Support of Research and Development Act, numbered 5746 effective from 24 November 2008.

As of 31 December 2016 the Group has a corporate tax benefit of TL 168.679.599 due to research and development disbursement and TL 3.699.882 of this amount is utilized by the period end (As of 31 December 2015, the corporate tax benefit is TL 162.422.957 and TL 67.996.102 of this amount is utilized by the period end). The Group has booked deferred tax assets for unused R&D tax benefit (Note 26).

For the period ended 31 December 2016, the amount of income tax incentive within the scope of Act numbered 5746 is TL 12.259.873 (31 December 2015: TL 10.728.973) and the total amount of social premium incentive within the scope of Act numbered 5746 and Social Security and General Health Insurance Act numbered 5510 is TL 9.252.701 (31 December 2015: TL 7.429.510).

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15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Diğer Kısa Vadeli Karşılıklar	31 Aralık 2016	31 Aralık 2015
Dava karşılıkları	3.658.492	4.309.760
Diğer borç ve gider karşılıkları	668.789	428.609
	4.327.281	**4.738.369**

31 Aralık 2016 tarihinde sona eren hesap döneminde Grup aleyhine açılmış davalar için 2.074.667 TL nakit çıkışı olmuştur (31 Aralık 2015: 4.201.720 TL).

	Dava Karşılıkları	Diğer Karşılıklar	Toplam
1 Ocak 2016 açılış	4.309.760	428.609	4.738.369
Ayrılan karşılık	1.423.399	144.713	1.568.112
Ödenen / konusu kalmayan karşılıklar	(2.074.667)	(15.813)	(2.090.480)
Yabancı para çevrim farkları	-	111.280	111.280
31 Aralık 2016 kapanış	**3.658.492**	**668.789**	**4.327.281**

	Dava Karşılıkları	Diğer Karşılıklar	Toplam
1 Ocak 2015 açılış	1.759.816	1.924.756	3.684.572
Ayrılan karşılık	6.751.664	974.283	7.725.947
Ödenen / konusu kalmayan karşılıklar	(4.201.720)	(2.474.331)	(6.676.051)
Yabancı para çevrim farkları	-	3.901	3.901
31 Aralık 2015 kapanış	**4.309.760**	**428.609**	**4.738.369**

16. COMMITMENTS

31 Aralık 2016 ve 2015 tarihleri itibarıyla Grup'un bilanço dışı yükümlülükleri aşağıda sunulmuştur;

	31 Aralık 2016	31 Aralık 2015
Verilen teminat mektupları (*)	379.591.575	318.911.600

(*) 31 Aralık 2016 tarihi itibarıyla, Grup'un konsolidasyon kapsamına dahil edilen ortaklıklar lehine vermiş olduğu teminat/rehin/ipotek bulunmamaktadır.

16. COMMITMENTS (cont'd)

Maturities of guarantee letters are given below.

31 December 2016		Original Currency			
Maturity	TL Equivalent	TL	USD	EUR	DZD
2016	2.350.534	450.000	318.289	210.359	-
2017	93.750.007	48.005.671	12.319.293	598.540	5.350.020
2018	7.949.196	3.481.243	784.263	460.383	-
2019	47.856.293	1.119.565	13.220.580	56.838	-
2020	10.411.424	9.831.301	19.246	138.115	-
2021	707.292	-	200.981	-	-
2022	2.340.000	2.340.000	-	-	-
2025	210.000	210.000	-	-	-
2026	422.304	-	120.000	-	-
Indefinite	213.594.525	67.538.392	39.933.774	1.488.233	-
	379.591.575	**132.976.172**	**66.916.426**	**2.952.468**	**5.350.020**

31 December 2015		Original Currency		
Maturity	TL Equivalent	TL	USD	EUR
2015	267.700	267.700	-	-
2016	75.048.546	48.416.015	9.110.683	44.785
2017	10.634.419	1.792.411	2.421.003	567.315
2018	3.694.889	1.758.398	666.010	-
2019	24.873.584	817.265	8.273.600	-
2025	210.000	210.000	-	-
Indefinite	204.182.462	80.986.849	40.335.371	1.861.936
	318.911.600	**134.248.638**	**60.806.667**	**2.474.036**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

16. COMMITMENTS (cont'd)

The off-balance sheet commitments and contingencies as of 31 December 2016 and 2015 are as follows:

Commitments, Pledges, Mortgages ("CPM") are given by the Company	31 December 2016	31 December
A. Total amount of CPM is given on behalf of own legal personality	379.591.575	318.911.600
B. Total amount of CPM is given in favor of subsidiaries which are fully consolidated	-	-
C. Total amount of CPM is given for assurance of third party's debts in order to conduct of usual business activities	-	-
D. Total Amount of other CPM	-	-
E. Total amount of CPM is given in favor of parent company	-	-
F. Total amount of CPM is given in favor of other group companies, which B and C doesn't include	-	-
G. The amount of CPM is given in favor of third party which C doesn't include	-	-
	379.591.575	**318.911.600**

Maturity and the original currency balances stated in the above table.
The rate of total amount of other "CPM"s to total equity of the Company is 0%. The off-balance sheet commitments as of 31 December 2016 and 2015 are as follows:

31 December 2016		Original Currency		
Maturity	TL Equivalent	TL	USD	EUR
2007-2015 (*)	17.074.063	1.146.800	4.482.741	40.864
2016	3.235.681	693.000	717.852	4.425
2017	7.673.805	227.000	2.090.750	24.000
2018	2.479.791	576.100	202.767	320.794
2019	486.219	204.000	80.194	-
2020	2.330.032	412.068	545.000	-
Indefinite	432.855	96.500	95.577	-
	33.712.446	**3.355.468**	**8.214.881**	**390.083**

31 December 2015		Original Currency		
Maturity	TL Equivalent	TL	USD	EUR
2007-2014 (*)	14.178.465	966.496	4.543.943	-
2015	12.668.836	302.000	4.208.621	40.864
2016	2.156.016	193.000	670.297	4.425
2017	2.529.022	2.162.000	100.000	24.000
2018	2.185.020	576.100	202.767	320.794
2019	437.172	204.000	80.194	-
2020	1.996.710	412.068	545.000	-
Indefinite	404.400	126.500	95.577	-
	36.555.641	**4.942.164**	**10.446.399**	**390.083**

(*) Guarantee letters from 2007 and 2015 are consisted of the letters to be returned by the customers.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

16. COMMITMENTS (cont'd)

Rent Agreements

As at 7 June 2012, the Company signed an agreement with ESAS Real Estate Group EAG Turizm İnşaat Sanayi ve Ticaret A.Ş. to rent the real estate ("Esas Aeropark") addressed in İstanbul city, Pendik district, Kurtköy Mahallesi with 15.744 square meters area. The rental period is 5 years beginning from 1 May 2013. The rent for the five years was USD 6.339.816 + VAT at the beginning of the rental period and the agreement have been revised for the remaining four years as USD 5.563.920 + VAT. The rents to be paid quarterly USD 1.046.756 + VAT for the first year, USD 1.339.848 for the second year, USD 1.507.328 for the third year, USD 1.669.988 for the fourth year. The leased real estate is used as the new Head Office and operation building of the Group.

As at 3 October 2012, Probil Bilgi İşlem Destek ve Danışmanlık Sanayi ve Ticaret A.Ş., the subsidiary of the Company, signed an agreement with Ahmet Bülent Koyuncuoğlu to lease the real estate addressed Orhanlı District, İrfan St. No. 28, Tuzla, İstanbul. The rental period is 5 years beginning from 1 October 2012. The rents to be paid in cash are USD 480.000+witholding tax for the first year, USD 504.000+witholding tax for the second year, USD 529.200 +witholding tax for the third year, USD 603.288 +witholding tax for the fourth year and USD 633.442 +witholding tax for the fifth year.

Company signed a rent contract with Yudo Leon Mizrahi (Renter) and Salvo Özsarfati (Lessor) for "Buyaka İs Merkezi" which 50 plate, 1840 block of buildings, 233 parcels that registered immovable for 15th floor in C Block each of which is 845 m2 are utilized as an office. The amount which it will be paid for the rented place starting on 1 January 2016 for 15th floor is USD 17.705. 3% will be applied for the increase of next year rental. The amount of rent between 1 February 2016 and 31 January 2017 is net USD 18.236 and between 1 February 2017 and 31 January 2018, net USD 18.784 which will be paid.

Unrevokable Operational Lease Commitments	31 December 2016	31 December 2015
Within 1 year	9.733.379	8.656.502
Between 1-5 years	2.389.632	10.805.625
	12.123.011	**19.462.127**

Guarantees Given

According to the System Integration Agreement signed between Probil and Cisco System International B.V., the Company agrees that all financial obligations will be jointly performed by the Company and Probil.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

17. EMPLOYEE BENEFITS

Employee Benefit Obligations:

	31 December 2016	31 December 2015
Payables to employees	8.804.624	7.905.105
Social security payables	9.021.007	5.129.234
	17.825.631	**13.034.339**

Short Term and Long Term Provisions for Employee Benefits:

Short Term	31 December 2016	31 December 2015
Provision for employee premiums	12.560.168	11.361.325
Unused vacation provision	4.291.367	3.758.229
Provision for severance indemnity	-	1.033.200
Provision for retirement benefits	-	485.027
	16.851.535	**16.637.781**
Long Term		
Unused vacation provision	1.596.400	1.254.241
Provision for severance indemnity	18.668.568	16.309.816
Provision for retirement benefits	1.942.466	2.949.594
	22.207.434	**20.513.651**
Total		
Provision for employee premiums	12.560.168	11.361.325
Unused vacation provision	5.887.767	5.012.470
Provision for severance indemnity	18.668.568	17.343.016
Provision for retirement benefits	1.942.466	3.434.621
	39.058.969	**37.151.432**

An actuarial valuation was performed by an independent and authorized company named Aon Hewitt for the Company's total liability for severance indemnity and retirement benefit as of 31 December 2016. Expected interest and service charges for 2017 have also been calculated by the actuarial firm. Expected service and interest charges for 2017 will be amortized on a periodic basis during the year.

Severance Indemnity

Under Turkish Law, the Company is required to pay employment termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires.

The provision is made in respect of all eligible employees, at a rate of 30 days gross pay for each year of service. The retirement pay provision ceiling at the respective balance sheet dates, is subject to a maximum of TL 4.297,21 per year as of 31 December 2016 (31 December 2015: TL 3.828,37 per year).

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

17. EMPLOYEE BENEFITS (cont'd)

Severance Indemnity (cont'd)

The movement for severance indemnity provision is as follows:

	31 December 2016	31 December 2015
Present value of severance indemnity provision	18.668.568	17.343.016
Net liability in balance sheet	**18.668.568**	**17.343.016**

	2016	2015
Current service cost	3.239.648	2.593.501
Interest cost	1.600.707	1.074.203
Extra payment or loss	(155.646)	345.675
Period charge at 31 December	**4.684.709**	**4.013.379**
Portion that is accounted under Other Comprehensive Income	105.224	(64.485)

Movement for severance indemnity provision:	2016	2015
As of 1 January	17.343.016	15.554.216
Period charge	4.684.709	4.013.379
Severance indemnity paid	(3.464.381)	(2.160.094)
Actuarial loss/(gain)	105.224	(64.485)
As of 31 December	**18.668.568**	**17.343.016**

Retirement Benefit Provision

As of 31 December 2012 the Company repealed the Lump Sum plan for new eligibility and HR department announced this to all employees on 27 December 2012. Accordingly, only the employees who are already entitled to Lump Sum as of 31 December 2012 will continue to be considered as members and also continue accrual of future benefits as well. This calculation is yearly prepared by Aon Hewitt and reported at their current value.

The movement for retirement benefit provision is as follows:

	31 December 2016	31 December 2015
Present value of retirement benefit provision Net liability in balance sheet	1.942.466	3.434.621
	1.942.466	**3.434.621**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

17. EMPLOYEE BENEFITS (cont'd)

***Retirement Benefit Provision* (cont'd)**

	2016	2015
Current service cost	-	-
Interest cost	183.752	133.162
Extra payment or (gain)/loss	-	71.019
Period charge at 31 December	**183.752**	**204.181**
Portion that is accounted under Other Comprehensive Income	(206.849)	400.022

Movement for retirement benefit provision:

	2016	2015
As of 1 January	3.434.621	3.329.050
Period charge	183.752	204.181
Actuarial loss	(206.849)	400.022
Benefit paid	(1.469.058)	(498.632)
As of 31 December	**1.942.466**	**3.434.621**

The assumption used to determine present value of severance indemnity and retirement benefit provision as of 31 December 2016 and 2015 are as follows:

Assumptions	31 December 2016	31 December 2015
Annual inflation rate	8,00 %	7,75 %
Annual discount rate	11,30 %	10,70 %

Provision for Employee Premiums and Unused Vacation

The movement for employee premiums provision is as follows:

	2016	2015
As of 1 January	11.361.325	10.736.792
Period charge	19.505.132	17.684.732
Premium payments	(18.306.289)	(17.060.199)
As of 31 December	**12.560.168**	**11.361.325**

The movement for unused vacation provision is as follows:

	2016	2015
As of 1 January	5.012.470	4.326.559
Period charge	3.492.458	2.053.109
Payments	(2.617.161)	(1.367.198)
As of 31 December	**5.887.767**	**5.012.470**

18. ADVANCES RECEIVED

As of 31 December 2016, the amount of advances received is consisted of TL 60.790.881 related to the defense projects and TL 17.421.393 related to system integration projects (31 December 2015: defense projects; TL 39.837.286, system integration projects; TL 26.940.870).

19. OTHER ASSETS AND LIABILITIES

Other Current Assets	31 December 2016	31 December 2015
VAT receivables	51.596.561	30.855.989
Prepaid taxes and funds	6.828.937	4.717.257
Personnel and business	484.650	637.690
advances Other	489.257	247.347
	59.399.405	**36.458.283**

Other Non-Current Assets	31 December 2016	31 December 2015
Other non-current assets (*)	7.478.474	6.872.784
	7.478.474	**6.872.784**

(*) The balance includes of spare parts which will be used in long term.

20. SHAREHOLDERS' EQUITY

Paid in Capital

As of 31 December 2016 and 2015, capital structure of the Company is as in the following:

	Share % 31 December 2016	Share % 31 December 2015	31 December 2016	31 December 2015
OEP (*)	48,04	48,04	31.162.570	31.162.570
TSKGV (**)	15,00	15,00	9.729.720	9.729.720
Public	36,96	36,96	23.972.510	23.972.510
Total	**100,00**	**100,00**	**64.864.800**	**64.864.800**

(*) OEP Turkey Tech B.V.
(**) Turkish Armed Forces Foundation

The Company's issued capital assigned to 64.864.800 shares with nominal value of 1 TL each. (31 December 2015: 64.864.800 shares with nominal value of TL 64.864.800)

As at 22 December 2010 Nortel Networks International Finance and Holding B.V. transferred and sold its 53,13% shareholding to OEP Turkey Tech B.V. The shares of the company are divided into two groups, where (A) group shares are registered and (B) group shares are bearer shares. (A) group shares are owned by OEP and Turkish Armed Forces Foundation. The differentiation of the shares between (A) and (B) groups, does not give the owners any rights nor privileges, except as provided in Articles 9, 15 and 19 of the Articles of Association.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

20. SHAREHOLDERS' EQUITY (cont'd)

Paid in Capital (Cont'd)

According to the Article 6 of Articles of Association section B, concerning the transfer of registered Group A shares the existing shareholders in Group A are entitled to pre-emptive rights which are required to be exercised within 30 days from the date of the offer for sale. Therefore a shareholder willing to sell its shares, in full or in part, must first offer, in writing, to the other shareholders in Group A in proportion to their respective shares, stating the price and other conditions for sale.

According to Article 9 of the Articles of Association; the required quorum for meetings and the required majority for resolutions of the shareholders shall be subject to the provisions of the Turkish Commercial Code (T.C.C.). However, resolution of the shareholders concerning matters stipulated in Article 388 of T.C.C. shall require the affirmative votes of the shareholders representing at least one half of the total number of shares within Group A.

According to Article 15 of the Articles of Association; The Board of Directors of the Company shall be composed of 7 (seven) members elected by the general assembly of shareholders, for a period of 3 (three) years. Four of the seven members shall be elected from among the candidates nominated by Group A shareholders, provided that two of the seven shall be elected from among the candidates nominated by OEP and one member shall be elected from among the nominees of Turkish Armed Forces Foundation, and three members shall be elected from among the nominees of the Group B shareholders.

According to Article 19 of the Articles of Association; the Board of Auditors composed of five members shall be elected by the General Assembly of shareholders for a period of three years. Three auditors shall be elected from among the nominees of the Group A, two auditors shall be elected from among the nominees of the Group B shareholders.

With the resolution of the board of directors dated 20 September 2011 and numbered 1, it is decided that the Company applies for the registered capital system, and the registered capital limit is to be set as 300.000.000 TL, and to be proposed for approval of the General Assembly upon completion of the formal procedures. Company's application to the Capital Markets Board on 19 October 2011 for the registered capital system has been reviewed and approved by the Capital Markets Board Council at the meeting dated 16 December 2011 and numbered 42/1117, and this approval is announced to the Company on 28 December 2011.

Share Capital Adjustments

According to CMB Decree No: XI-26 "Changes to CMB Decree No: XI-20 Accounting Principles in Hyperinflationary Periods", account differences occurred in correction of shareholders' equity are shown at their nominal values in the financial statements, under currency translation reserves account. The differences arise from inflation adjustment of shareholders' equity accounts are shown together at "Currency Translation Reserves" account. According to Board of Directors decision on 5 April 2004 referring to the Annual General Meeting decision and related CMB Decrees, conversion differences within the meaning of the law, occurred in prior periods were net-off with accumulated losses. temettülerden sonra, tüm nakdi temettü dağıtımları üzerinden yıllık %10 oranında ayrılır.

Legal Reserves

According to Turkish Commercial Code, legal reserves consist of first and second legal reserves. The first legal reserves, appropriated out of historical statutory profit at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid in share capital. The second legal reserve is appropriated after the first legal reserves and dividends, at the rate of 10% per annum of all cash distribution.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

20. SHAREHOLDERS' EQUITY (cont'd)

Legal Reserves (Cont'd)

The total amount of first and second legal reserves in the Company's statutory books of account is TL 33.182.076 as of 31 December 2016 (31 December 2015: TL 33.182.076). Translation differences are presented in currency translation reserves in the accompanying consolidated financial statements prepared by in accordance with TAS.

	Retained Earnings	Extraordinary Reserves	Total Retained Earnings
As of 1 January 2016	233.509.972	(88.964.177)	144.545.795
Net profit for the year	18.670.011	-	18.670.011
As of 31 December 2016	**252.179.983**	**(88.964.177)**	**163.215.806**

	Retained Earnings	Extraordinary Reserves	Total Retained Earnings
As of 1 January 2015	199.577.931	(88.964.177)	110.613.754
Transfers to legal reserves	(373.034)	-	(373.034)
Net profit for the year	34.305.075	-	34.305.075
As of 31 December 2015	**233.509.972**	**(88.964.177)**	**144.545.795**

Capital Market Board set the rules for profit distributions in the Capital Market Board bulletin numbered 2010/4. Accordingly, the Company makes the profit distribution based on the financial statements filed at Capital Market Board prepared in accordance with Communique Series IX, No. 29, in accordance with Communique Series IV No: 27.

Based on the authority granted to the Board by Article 6 of the Articles of Association of the Company and within the authorized capital ceiling of 300.000.000 TL; it is resolved to increase the issued capital of TL 6.486.480 through a bonus issue of shares utilizing internal resources from capital reserves amounting to TL 58.378.320, representing a ratio of 900% bonus issue, increasing the issued capital to TL 64.864.800 and to distribute the bonus shares within the framework of Capital Markets Legislation and to authorize the management to make applications for approval to the Capital Markets Board and conduct necessary activities. The applications are sent to CMB as at 7 May 2012 and CMB has approved the applications by its decision numbered 25/852 as at 19 July 2012 and the certificate dated 23 July 2012 and numbered 78/852 is given to the Company. The certificate was registered in Istanbul Trade Registry on 30 July 2012 based on the resolution of Board of Directors to increase the issued capital. Distribution of issued capital to shareholders started and was completed on 3 August 2012.

The total amount of the Company's net income and all available resources that can be distributed in its' statutory financial statements as of 31 December 2016 are TL 138.699.559 (31 December 2015: TL 202.019.007).

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Unless otherwise stated the amounts are in TL).

21. REVENUE AND COST OF SALES

Sales:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Total domestic	**820.100.035**	**800.171.666**
United States	69.618.884	73.271.042
Asia	8.185.493	3.601.409
Africa	54.483.072	113.097.961
Europe	17.455.940	18.851.019
Total export	**149.743.389**	**208.821.431**
Total sales	**969.843.424**	**1.008.993.097**

Cost of Sales:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Equipment expenses	478.398.242	582.990.636
Personnel expenses	183.200.806	165.123.511
Service/ support expenses	131.342.918	111.599.597
Depreciation and amortization expenses	14.889.484	12.781.256
Rent expenses	8.223.966	6.065.015
Transportation expenses	3.880.130	4.026.279
Other	15.484.097	12.503.970
	835.419.643	**895.090.264**

RESEARCH AND DEVELOPMENT, SALES, MARKETING and DISTRIBUTION, AND GENERAL ADMINISTRATIVE EXPENSES

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Sales, marketing and distribution expenses	44.406.817	42.588.722
General administrative expenses	24.402.568	23.844.072
Research and development expenses (*)	-	3.968.273
	68.809.385	**70.401.067**

(*)The amount of "Research and Development" expenses, TL 12.227.338, is net off with approved and accrued incentive from TÜBİTAK referring to Note 14.

The details of research and development, sales, marketing and distribution and general administrative expenses are as in the following:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Payroll expenses	38.806.883	39.066.738
Depreciation and amortization expenses	7.563.469	7.536.845
Consultancy, audit and legal expenses	3.663.138	2.767.457
Travel and meeting expenses	2.543.168	2.053.291
Rent expenses	2.446.068	3.459.621
Fair and advertising expenses	2.193.882	1.508.527
Maintenance expenses	1.736.049	1.473.806
Cafeteria expenses	1.670.423	1.156.257
Provision expenses	1.589.009	3.254.999
Software expenses	957.851	833.232
Communication expenses	909.481	543.603
Private health insurance expenses	650.937	607.925
Severance indemnity and pension provision expenses	589.228	840.718
Salaries of the BOD and BOA members	533.235	365.426
Electricity,water and gas expenses	458.427	779.127
Personnel transportation expenses	402.743	238.062
Training expenses	301.306	369.639
Other	1.794.087	3.545.794
	68.809.385	**70.401.067**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

23. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

Other Income from Operating Activities	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
R&D Incentives	3.057.187	9.480.821
Discount income on receivables(*)	745.240	-
Service income	621.164	1.128.250
Other income and gains	417.331	482.132
	4.840.922	**11.091.203**

Other Expenses from Operating Activities	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Foreign exchange expenses	20.102.886	12.656.014
Legal case expenses	3.413.834	4.932.571
Discount expense on receivables (*)	-	8.937.832
Uncollectible receivables (**)	24.006.656	-
Other tax expenses	1.485.651	508.693
Other expenses and losses	1.711.201	3.213.36
	50.720.228	**30.248.471**

(*) Discount expenses related to trade receivables are accounted under Other Income/(Expenses) from Operating Activities. (**) Total amount consists of Nortel receivables provision amounting to 45 % of net-off Nortel companies' trade receivables and payables which is approved by the related authorities and other provision expenses for doubtful receivables.

24. INCOME AND EXPENSES FROM INVESTMENTS ACTIVITIES

Income from Investment Activities:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Income from sales of tangible	102.181	169.797
asset Income from scrap sales	45.797	9.845
	147.978	**179.642**

Expenses from Investment Activities:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Losses from sales of tangible assets	106.583	248.408
	106.583	**248.408**

25. FINANCIAL INCOME / (EXPENSES)

Financial Income:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Foreign exchange gain from loans	50.117.292	56.938.753
Interest income	1.287.919	1.054.628
Gains on derivative instruments	-	2.333.316
	51.405.211	**60.326.697**

Financial Expenses:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Bank interest expenses	43.793.734	35.076.184
Losses from derivative instruments	2.763.224	-
Guarantee letter commissions	2.301.206	2.674.342
Other financial expenses	908.772	402.992
	49.766.936	**38.153.518**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

26. TAX ASSETS AND LIABILITIES

Corporate Tax

The Company is subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Company's results for the period.
Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.
As of 31 December 2016 and 2015, tax rate is 20%. In Turkey, advance tax returns are filed on a quarterly basis. The rate applied for advance corporate income tax rate for 2016 is 20% (2015: 20%).
Accumulated losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. However, accumulated losses cannot be deducted from the profit occurred in the prior years retroactively.
In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the fiscal year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.
Corporate tax rate in Malta is 35% (31 December 2015: 35 %) Corporate tax rate in Kazakhstan is 20% (31 December 2015: 20 %).

Withholding tax

In addition to corporate taxes, companies should also calculate withholding taxes surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. This rate was changed to 15 % with the code numbered 5520 article 15 commencing from 23 July 2006. Transfer from retained earnings to share capital is not subject to withholding taxes.

Deferred Taxes

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising from its financial statements prepared in accordance with TAS and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TAS and tax purposes and are set out below. Tax rates applicable as of 31 December 2016 and 2015 is 20%.

26. TAX ASSETS AND LIABILITIES (cont'd)

Deferred tax (liabilities)/assets	31 December 2016	31 December 2015
Trade receivables	(64.660.327)	(41.139.634)
Tangible and intangible assets	(11.361.781)	(9.628.160)
Trade payables and cost provisions	1.299.169	2.240.615
Carryforward tax losses	1.829.948	1.227.063
Unused R&D tax exemption	32.995.943	18.885.370
Provision for unused vacation	1.177.554	1.002.494
Inventory and deferred costs	1.537.007	3.360.460
Provisions for employee premiums	2.512.033	2.272.264
Advances received	2.490.727	2.168.521
Deferred revenues	12.125.739	6.279.027
Severance indemnity and retirement provisions	4.122.207	4.155.527
Other	700.020	774.025
	(15.231.761)	**(8.402.428)**

The movement of deferred tax (liabilities)/assets is as follows:

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
As of 1 January	(8.402.428)	2.435.497
Current charge deferred tax expenses	(3.688.098)	(10.268.834)
Charge to equity	(20.325)	67.107
Translation difference	(3.120.910)	(636.198)
As of 31 December	**(15.231.761)**	**(8.402.428)**

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Current tax expenses	(313.751)	(2.499.583)
Deferred tax expenses	(3.688.098)	(10.268.834)
	(4.001.849)	**(12.768.417)**

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(Unless otherwise stated the amounts are in TL).

26. TAX ASSETS AND LIABILITIES (cont'd)

	31 December 2016	31 December 2015
Corporate tax	313.751	2.499.583
Prepaid taxes	(16.087)	(539.649)
Current tax liabilities	**297.664**	**1.959.934**

Movement for deferred taxes as of 31 December 2016 and 2015 are as follows;

	1 January 2016	Charge to (Loss)/Profit	Charge to Equity	Translation Difference	31 December 2016
Tangible and intangi ble assets	(9.628.160)	910.907	-	(2.644.528)	(11.361.781)
Trade receivables	(41.139.634)	(12.771.770)	-	10.748.923)	(64.660.327)
Trade payables and cost provisions	2.240.615	(1.213.635)	-	272.189	1.299.169
Inventory and deferred costs					
Advances received	3.360.460	(2.173.685)	-	350.232	1.537.007
Provisions for employee premiums	2.168.521	(115.056)	-	437.262	2.490.727
Provision for unused vacation	2.272.264	(204.620)	-	444.389	2.512.033
Severance indemnity and retirement provisions	1.002.494	(30.764)	-	205.824	1.177.554
Deferred revenues	4.155.527	(736.474)	(20.325)	723.479	4.122.207
Unused R&D tax exemption	6.279.027	3.888.056	-	1.958.656	12.125.739
Carryforward tax losses	18.885.370	8.709.245	-	5.401.328	32.995.943
Other	1.227.063	296.185	-	306.700	1.829.948
	774.025	(246.487)	-	172.482	700.020
	(8.402.428)	**(3.688.098)**	**(20.325)**	**(3.120.910)**	**(15.231.761)**

	1 January 2015	Charge to (Loss)/Profit	Charge to Equity	Translation Difference	31 December 2015
Tangible and intangible assets	(7.408.373)	131.081		(2.350.868)	(9.628.160)
Trade receivables	(35.874.160)	3.594.030		(8.859.504)	(41.139.634)
Trade payables and cost provisions	(3.268.110)	5.929.444		(420.719)	2.240.615
Inventory and deferred costs	11.231.492	(10.030.561)		2.159.529	3.360.460
Advances received	1.298.299	505.741		364.481	2.168.521
Provisions for employee premiums	2.147.358	(393.130)	-	518.036	2.272.264
Provision for unused vacation	865.312	(77.172)	-	214.354	1.002.494
Severance indemnity and retirement provisions	3.776.653	(594.900)	67.107	906.667	4.155.527
Deferred revenues	11.381.215	(7.475.923)		2.373.735	6.279.027
Unused R&D tax exemption	15.991.423	(1.090.583)		3.984.530	18.885.370
Carryforward tax losses	1.938.391	(1.125.782)		414.454	1.227.063
Other	355.997	358.921		59.107	774.025
	2.435.497	**(10.268.834)**	**67.107**	**(636.198)**	**(8.402.428)**

The Group has tax losses to be used future are TL 9.149.740 as of 31 December 2016 (31 December 2015: TL 6.135.315).

26. TAX ASSETS AND LIABILITIES (cont'd)

Vergi Karşılığının Mutabakatı	31 Aralık 2016	31 Aralık 2015
Vergi öncesi kar	22.671.860	47.073.492
Etkin vergi oranı	% 20	% 20
Hesaplanan vergi	(4.534.372)	(9.414.698)
Hesaplanan ile ayrılan vergi karşılığının mutabakatı:		
Kanunen kabul edilmeyen giderlerin vergi etkisi	(1.082.712)	(2.497.729)
Vergiye tabi olmayan kazanç	334.647	758.221
Kullanılan mali zarar	-	(711.328)
Kullanılan ArGe indirimi	739.976	13.599.220
Kullanılmayan ArGe indirimi	(14.850.549)	(16.493.168)
Yapılandiğer düzeltmeler ve parasal kayıp kazanç	15.391.161	1.991.065
Toplam vergi gideri	**(4.001.849)**	**(12.768.417)**

31 Aralık 2016 itibarıyla 5746 No'lu Kanun kapsamında kullanılmayan ArGe indirimi tutarı 164.979.717 TL'dir (31 Aralık 2015: 94.426.855 TL).

Ertelenmiş vergi aktifi ayrılan devreden geçmiş yıl zararlarının kullanım hakkının sona erecekleri yıllar aşağıdaki gibidir:

	31 Aralık 2016	31 Aralık 2015
2019 yılında sona erecek	-	1.227.063
2021 yılında sona erecek	602.885	-
	602.885	**1.227.063**

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27. EARNINGS PER SHARE

	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Number of shares	64.864.800	64.864.800
Net profit for the year	18.670.011	34.305.075
Earnings per share	0,2878	0,5289

Earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

David Arthur Walsh and Joseph Patrick Huffsmith were selected as the member of the Board of Directors of the Company as at 22 December 2010. As David Arthur Walsh and Joseph Patrick Huffsmith are also the members of the Board of Directors of Genband US LLC, and its associates (collectively Genband) Genband is accounted as related parties effective from 22 December 2010.

Due from Related Parties	31 December 2016	31 December 2015
Genband US LLC	25.329.936	17.903.265
Genband Ireland Ltd.	1.359.373	319.025
Genband Japan GK	-	41.917
Genband Telecommunications	19.238	196.044
(UK) Genband Telecomunicacoes	98.493	81.376
	26.807.040	**18.541.627**

Due to Related Parties	31 December 2016	31 December 2015
Genband Ireland Ltd.	1.312.804	21.588
Genband US LLC	-	23.855
Kron Telekomunikasyon A.Ş.	8.305	-
	1.321.109	**45.443**

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont'd)

Main transactions with related parties are as follows for the period ended 31 December 2016 and 2015:

Sales	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Genband US LLC	68.851.921	71.898.510
Genband Ireland Ltd.	2.488.523	1.806.737
Genband Telecommunications (UK)	42.829	958.535
Genband Japan GK	-	14.506
Genband Telecomunicacoes	-	76.125
	71.383.273	**74.754.413**

Purchases	For the Period Ended 31 December 2016	For the Period Ended 31 December 2015
Genband Ireland Ltd.	2.563.451	2.019.032
Kron Telekomunikasyon A.Ş.	6.046	1.799.596
GenbandUSLLC	-	46.240
	2.569.497	**3.864.868**

For the year ended 31 December 2016, total remuneration for the directors, management, board and audit members of the Group is TL 7.175.102 (for the year ended 31 December 2015 total remuneration for the directors, management, and board and audit members of the Group is TL 6.193.549). As of 31 December 2016 and 2015 there is no credit granted to the Group's management.

29. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments and hedge accounting

Derivative financial instruments are calculated according to the fair value at the contract date and again are calculated in the following reporting period at fair value base. The effective portion of changes in the fair value of derivatives which are designed as cash flow hedge are recognized in other comprehensive income. Any ineffective portion of the changes in fair value of the derivatives is recognized in profit or loss.

When the hedging instrument expires, is sold, or when a hedge no longer meets the criteria for the hedge than hedge accounting is terminated. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the statement of income. However, if the hedge transaction is not realized, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss of the current period.

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29. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk in accordance to Group's risk management policy. Derivative financial instruments does not match the hedge accounting criteria's in TAS 39 (Financial Instruments: Recognition and Measurement), consequently stated as available for sale derivative financial instruments in the accompanying consolidated financial statements. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Asymmetric Forward Knockout

In order to meet the US Dollar funding requirement and minimize the negative exposure to appreciation of US Dollar against Turkish Lira, the Group has entered into a series of "asymmetric zero-cost collar forward knockout contracts", which have been accounted for as a derivative instrument. For each of these contracts, with maturities until 28 February 2017, the Group has agreed to purchase US Dollars: At strike rate, if the spot rate effective on the maturity of the forward contract is above the strike rate, which is ranging between 3,0998 and 3,3700 USD/TL, If the spot rate is above the "barrier" rate, which is 3,3800 USD / TL, then the forward contracts will in favor of bank.

Option Contract

The maturity date of Group's option contract is 20 October 2017, and its type is "Call Option Contract". The contract exchange rate is 4,00 USD/TL. If the exchange rate exceeds the 4,00 USD/TL at the maturity date, bank will use the warranty, purchase USD from the Group at that rate, and finally pay premiums to the Group related to this purchase. If the exchange rate is lower than the 4,00 USD/TL at the maturity date, bank does not use its warranty, but pays premiums to the Group.

The nominal amounts and the fair values of these derivative instruments as of 31 December 2016 and 2015 are as follows:

	Currency	Nominal Value		Fair Value (Liability)/ Asset	
		2016	2015	2016	2015
European Type,USD Call Option	USD	5.000.000		-	-
				(2.299.731)	
Asymmetric Forward Knockout	USD	1.791.222	4.800.000	(379.022)	109.927

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial risk management policies are as follows:

Credit risk

Carrying values of the financial assets represents their maximum exposed credit risk. As at the date of balance sheet maximum credit risks are as follows:

31 December 2016	Trade Receivables		Other Receivables	
	Related Parties	Other	Other (*)	Deposits at Banks
Maximum credit risks as of balance sheet date (A+B+C+D)	**26.807.040**	**759.478.538**	**669.053**	**115.147.110**
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	20.339.053	663.741.201	669.053	115.147.110
(B) Net book value of overdue but not impaired financial assets (**)	6.467.987	95.737.337	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	51.433.691	-	-
Impairment (-)	-	(51.433.69)	-	-
Guaranteed by collateral	-	-	-	-
Unexpired (gross book value)	-	-	-	-
Impairment (-)	-	-	-	-
Guaranteed by collateral	-	-	-	-
(D) Off balance sheet risks	-	-	-	-

(*) VAT receivable, prepaid taxes are not classified as financial assets and therefore are not included in other receivables and other current assets.

(**) The amount of overdue but not impaired financial assets is consisted of TL 26.522.361 receivables from Nortel companies. As a result of net-off Nortel companies' receivables and payables, 45 % provision amount is adjusted.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

31 December 2015	Trade Receivables		Other Receivables	
	Related Parties	Other	Other (*)	Deposits at Banks
Maximum credit risks as of balance sheet date (A+B+C+D)	**18.541.627**	**687.170.682**	**397.045**	**225.682.937**
Maximum risk guaranteed by collateral	-	-	-	-
(A) Net book value of unexpired or not impaired financial assets	18.032.221	596.400.799	397.045	225.682.937
(B) Net book value of overdue but not impaired financial assets (**)	509.406	90.769.883	-	-
Guaranteed by collateral	-	-	-	-
(C) Net book value of impaired assets	-	-	-	-
Overdue (gross book value)	-	21.060.373	-	-
Impairment (-)	-	(21.060.3)	-	-
Guaranteed by collateral	-	-	-	-
Unexpired (gross book value)	-	-	-	-
Impairment (-)	-	-	-	-
Guaranteed by collateral	-	-	-	-
(D) Off balance sheet risks	-	-	-	-

(*) VAT receivable, prepaid taxes are not classified as financial assets and therefore are not included in other receivables and other current assets.

(**) TL 49.638.506 of overdue but not impaired is receivable from Nortel companies and as there is a continuing uncertainty regarding the collectability and collection time table of these receivables, no provision has been made.

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(Unless otherwise stated the amounts are in TL).

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

As at the date of balance sheet aging of overdue but not impaired financial assets are as follows:

	Receivables	
31 December 2016	**Trade Receivables**	**Other Receivables**
1-30 days overdue	35.554.912	-
1-3 months overdue	9.988.473	-
3-12 months overdue	19.963.730	-
1-5 years overdue	10.175.848	-
Overdue more than 5 years	26.522.361	-
Total	**102.205.324**	-

	Receivables	
31 December 2015	**Trade Receivables**	**Other Receivables**
1-30 days overdue	19.776.922	-
1-3 months overdue	3.332.034	-
3-12 months overdue	9.656.393	-
1-5 years overdue	8.875.434	-
Overdue more than 5 years	49.638.506	-
Total	**91.279.289**	-

Liquidity risk

The Group holds adequate sources to be able to fulfill its current and future liabilities. As of 31 December 2016 and 2015 liquidity risk table are as follows;

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30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

31 December 2016

Maturities due to agreements	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**597.269.719**	**601.756.648**	**439.125.390**	**160.685.53**	**1.945.728**
Financial liabilities	354.859.452	359.346.381	198.660.851	160.685.530	-
Due to related parties	1.321.109	1.321.109	1.321.109	-	-
Other trade payables to third parties	241.089.158	241.089.158	239.143.430	-	1.945.728

Expected maturities	Carrying amount	Cash outflows due toagreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**30.839.753**	**30.839.753**	**27.181.261**	**3.658.492**	-
Other short term provisions	4.327.281	4.327.281	668.789	3.658.492	-
Payables related to employee benefits	17.825.631	17.825.631	17.825.631	-	-
Other payables to third parties (*)	8.686.841	8.686.841	8.686.841	-	-

The Group management considers that net book value of financial instrument reflects with the fair value.

(*) Social security premiums, income tax and other taxes payable are included in other liabilities.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

31 December 2015

Maturities due to agreements	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**695.968.149**	**716.692.411**	**439.151.113**	**264.759.409**	**12.781.889**
Financial liabilities	333.068.285	353.792.547	89.033.138	264.759.409	-
Due to related parties	45.443	45.443	45.443	-	-
Other trade payables to third parties	362.854.421	362.854.421	350.072.532	-	12.781.889

Expected maturities	Carrying amount	Cash outflows due to agreements	Up to 3 months	3-12 months	1-5 years
Non- derivative financial liabilities	**30.503.815**	**30.503.815**	**25.765.446**	**4.738.369**	**-**
Other short term provisions	4.738.369	4.738.369	428.609	4.309.760	-
Payables related to employee benefits	13.034.339	13.034.339	13.034.339	-	-
Other payables to third parties (*)	12.731.107	12.731.107	12.731.107	-	-

The Group management considers that net book value of financial instrument reflects with the fair value.

(*) Social security premiums, income tax and other taxes payable are included in other liabilities.

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30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1 The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2 The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3 The fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices.

In accordance with fair value hierarchy; while cash and cash equivalent are categorized as at Level 1, other financial asset and liabilities in the table are categorized as Level 2.

Interest rate risk

Interest rate sensitive financial assets are placed in short term instruments in order to avoid any possible interest rate fluctuations. The Group has the following interest sensitive liability as at the balance sheet date.

	31 December 2016	**31 December 2015**
Fixed interest rate financial instruments	**386.806.122**	**516.970.805**
Financial assets (*)	95.947.358	187.084.434
Financial liabilities	290.858.764	329.886.371
Variable interest rate financial instruments	**64.000.000**	**-**
Financial assets	-	-
Financial liabilities	64.000.000	-
Interest-free financial instruments	**688**	**3.181.914**
Financial liabilities	688	3.181.914

(*) As of 31 December 2016 and 2015, includes time deposits.

Foreign currency risk

The Group's foreign currency risk is mainly associated with change in value of US Dollar against TL and other currencies. In order to avoid possible losses due to fluctuations of foreign exchange rates, the Group places its assets with the same currency for liabilities and bears its contractual expenses in the same currency of contracts if possible.

	31 December 2016	**31 December 2015**
Export	149.743.389	208.821.431
Import	326.811.761	374.793.579

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

As of 31 December 2016 and 2015, the Group's foreign currency position table is given below.

		Original Currency				
31 December 2016	**TL Equivalent (*)**	**TL**	**EURO**	**GBP**	**TAKA**	**Other**
Current Assets	**267.916.251**	**253.035.189**	**1.720.528**	**631**	**13.113.887**	**642.863.905**
Cash and cash equivalents	34.150.329	23.230.179	1.058.139	29	12.613.887	579.561.577
Trade receivables, third parties	167.304.554	164.675.446	394.964	602	-	36.597.325
Other receivables, third parties	600.120	540.669	-	-	500.000	3.484.204
Prepaid expenses	6.883.679	6.123.745	195.315	-	-	1.452.487 21.768.312
Other current assets	58.977.569	58.465.150	72.110	-	-	
TOTAL ASSETS (A)	**267.916.251**	**253.035.189**	**1.720.528**	**631**	**13.113.887**	**642.863.905**
Short Term Liabilities	**394.714.241**	**388.657.102**	**1.366.619**	**7.303**	**-**	**31.246.825**
Financial liabilities	284.319.045	284.319.045	-	-	-	-
Trade payables, third parties	62.790.540	56.762.542	1.365.069	6.505	-	30.618.282 -
Other payables, third parties	8.695.796	8.695.796	-	-		-
Employee benefit obligations	17.730.044	17.700.903	1.550	798	-	628.543 -
Provision for employee benefit	16.851.535	16.851.535	-	-		-
Other short term provisions	4.327.281	4.327.281	-	-	-	-
Long Term Liabilities	**22.207.434**	**22.207.434**	**-**	**-**	**-**	**-**
Provision for employee benefit	22.207.434	22.207.434	-	-	-	-
TOTAL LIABILITIES (B)	**416.921.675**	**410.864.536**	**1.366.619**	**7.303**	**-**	**31.246.825**
Net Foreign Currency Asset / (Liability) Position (A-B)	**(149.005.424)**	**(157.829.347)**	**353.909**	**(6.672)**	**13.113.887**	**611.617.080**

(*) Since the functional currency of the Group is USD the currencies other than USD are shown in the table. Foreign currencies are denominated in their original currency amount and TL equivalents are calculated by using yearend rates.

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30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

		Original Currency					
31 December 2015	**TL Equivalent (*)**	**TL**	**EURO**	**CAD**	**GBP**	**TAKA**	**Other**
Current Assets	**230.670.927**	**216.714.939**	**2.865.403**	**-**	**62.797**	**15.361.031**	**579.561.650**
Cash and cash equivalents	58.084.253	49.582.078	1.455.245	-	61.726	15.358.695	535.666.291
Trade receivables, third parties	118.104.174	113.899.625	1.040.627	-	511	-	37.590.930
Other receivables, third parties	397.045	397.045	-	-	-	-	-
Prepaid expenses	18.066.540	17.095.629	297.433		-	2.336	612.103
Other current assets	36.018.915	35.740.562	72.098		560 -	-	5.692.326
TOTAL ASSETS (A)	**230.670.927**	**216.714.939**		**-**	**62.797**	**15.361.031**	**579.561.650**
Short Term Liabilities	**417.175.437**	**412.562.934**	**2.865.403**		**1.357**	**-**	**19.204.072**
Financial liabilities	274.616.439	274.616.439	**1.290.374**	**3.138**	-	-	-
Trade payables, third parties	95.397.802	90.793.273	1.290.374	3.138	1.357	-	18.276.863
Other payables, third parties	12.750.707	12.745.554	-	-	-	-	599.186
Employee benefit obligations	13.034.339	13.031.518	-	-	-	-	328.023
Provision for employee benefit	16.637.781	16.637.781	-	-	-	-	-
Other short term provisions	4.738.369	4.738.369	-	-	-	-	-
Long Term Liabilities	**20.513.651**	**20.513.651**	**-**	**-**	**-**	**-**	**-**
Provision for employee benefit	20.513.651	20.513.651	-	-	-	-	-
TOTAL LIABILITIES (B)	**437.689.088**	**433.076.585**	**1.290.374**	**3.138**	**1.357**	**-**	**19.204.072**
Net Foreign Currency Asset / (Liability) Position (A-B)	**(207.018.161)**	**(216.361.646)**	**1.575.029**	**(3.138)**	**61.440**	**15.361.031**	**560.357.578**

(*) Since the functional currency of Group is USD, the currencies other than USD are shown in the table. Foreign currencies are denominated in their original currency amount and TL equivalents are calculated by using yearend rates.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign currency risk (cont'd)

Exchange Rate Sensitivity Table 31 December 2016

	Profit /(Loss)	
	Appreciation	Devaluation
Effect of 10 % appreciation/devaluation in TL -USD exchange rate :		
Net asset / (liability) in TL	(15.782.935)	15.782.935
Not subjected to TL risk (-)	-	-
(1) Net effect of TL	**(15.782.935)**	**15.782.935**
Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :		
Net asset / (liability) in EUR	131.297	(131.297)
Not subjected to EUR risk (-)	-	-
(2) Net effect of EUR	**131.297**	**(131.297)**
Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:		
Net asset / (liability) in other currencies	751.096	(751.096)
Not subjected to other currency risk (-)	-	-
(3) Net effect of other currencies	**751.096**	**(751.096)**
TOTAL (1+2+3)	**(14.900.542)**	**14.900.542**

31 December 2015

	Profit / (Loss)	
	Appreciation	Devaluation
Effect of 10 % appreciation/devaluation in TL -USD exchange rate :		
Net asset / (liability) in TL	(21.636.165)	21.636.165
Not subjected to TL risk (-)	-	-
(1) Net effect of TL	**(21.636.165)**	**21.636.165**
Effect of 10 % appreciation/devaluation in EURO – USD exchange rate :		
Net asset / (liability) in EUR	500.481	(500.481)
Not subjected to EUR risk (-)	-	-
(2) Net effect of EUR	**500.481**	**(500.481)**
Effect of 10 % appreciation/devaluation in exchange rate of other foreign currencies:		
Net asset / (liability) in other currencies	433.868	(433.868)
Not subjected to other currency risk (-)	-	-
(3) Net effect of other currencies	**433.868**	**(433.868)**
TOTAL (1+2+3)	**(20.701.816)**	**20.701.816**

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Unless otherwise stated the amounts are in TL).

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

31 December 2016	Loans and Receivables (including cash and cash equivalents)	Amortized value of financial liabilities	Note
Financial assets			
Cash and cash equivalents	115.641.750	-	5
Trade receivables	759.478.538	-	7
Due from related parties	26.807.040	-	28
Financial investments	1.940.781	-	
Other current assets	669.053	-	8
Financial liabilities			
Borrowings	-	354.859.452	6
Trade payables	-	241.089.158	7
Due to related parties	-	1.321.109	28
Other liabilities	-	8.686.841	8

31 December 2015	Loans and Receivables (including cash and cash equivalents)	Amortized value of financial liabilities	Note
Financial assets			
Cash and cash equivalents	226.061.741	-	5
Trade receivables	687.170.682	-	7
Due from related parties	18.541.627	-	28
Financial investments	862.056	-	
Other current assets	397.045	-	8
Financial liabilities			
Borrowings	-	333.068.285	6
Trade payables	-	362.854.421	7
Due to related parties	-	45.443	28
Other liabilities	-	12.731.107	8

32. SUBSEQUENT EVENTS

On 6 December 2016, OEP Turkey Tech B.V. ("OEP") and ZTE Cooperatief U.A. ("ZTE") signed a share purchase agreement regarding to transfer of 48,04 % shares of the Company's total equity and approval has been obtained from the Competition Authority on 31 December 2016. Extraordinary General Meeting is going to be held on 3 March 2017 regarding to this transaction.

33. DISCLOSURE OF OTHER MATTERS THAT MAY AFFECT CONSOLIDATED FINANCIAL STATEMENTS SIGNIFICANTLY OR IS NECESSARY FOR CONSOLIDATED FINANCIAL STATEMENTS TO BE CLEAR, INTERPRETABLE AND COMPREHENSIBLE

None.

NETAŞ

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